

2017 ANNUAL REPORT



哈电集团
HARBIN ELECTRIC CORPORATION

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

Stock Code: 1133

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OVERVIEW OF THE COMPANY

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

Located in Harbin City, China, the Company was incorporated on 6 October 1994 and listed on the Stock Exchange of Hong Kong Limited on 16 December 1994 with its stock code of “01133”.

As at 31 December 2017, the total share capital of the Company comprised of 1,376,806,000 shares, of which 675,571,000 were H shares traded on the HKSE. As of the date of this annual report, the total share capital of the Company comprised of 1,706,523,000 shares, of which 675,571,000 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 China, 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 1,000 MW class, accounting for over 30% of the installed capacity of thermal power in China;
- Hydro power main equipments: hydro power generators units with single unit capacity up to 1,000 MW class, accounting for 50% of the installed capacity of large-scale hydro power in China;
- Nuclear power main equipments: nuclear island and conventional island equipments for nuclear power plants with single unit capacity up to 1,400 MW 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;

OVERVIEW OF THE COMPANY (CONTINUED)

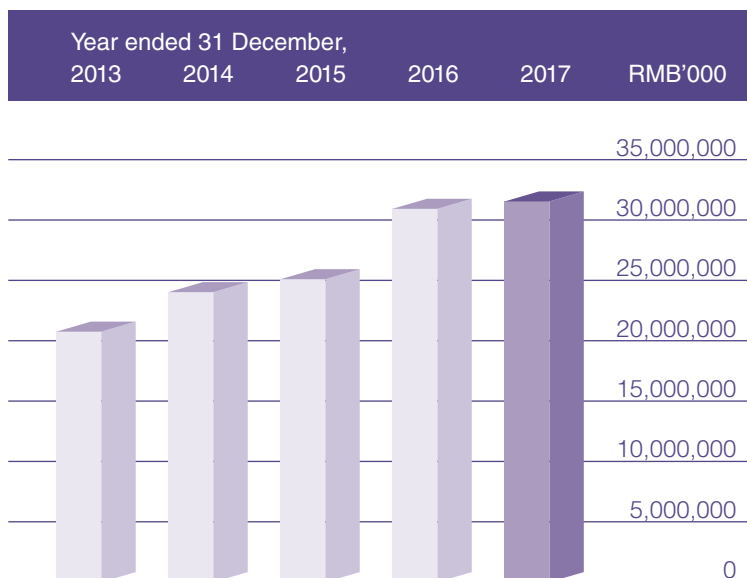
- Turnkey construction of power station projects;
- Contract supply of complete sets of thermal and hydro power equipment;
- Import and export of equipment for power stations;
- After-sales service for power station equipment products;
- R&D of engineering technology for turnkey power equipment;
- R&D of power equipment and its ancillary products;
- Environmental protection engineering services, such as desulfurization, denitrification and dust removal.

Positioning itself in the domestic 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 projects both in China and overseas, as well as BOT and BOO businesses.

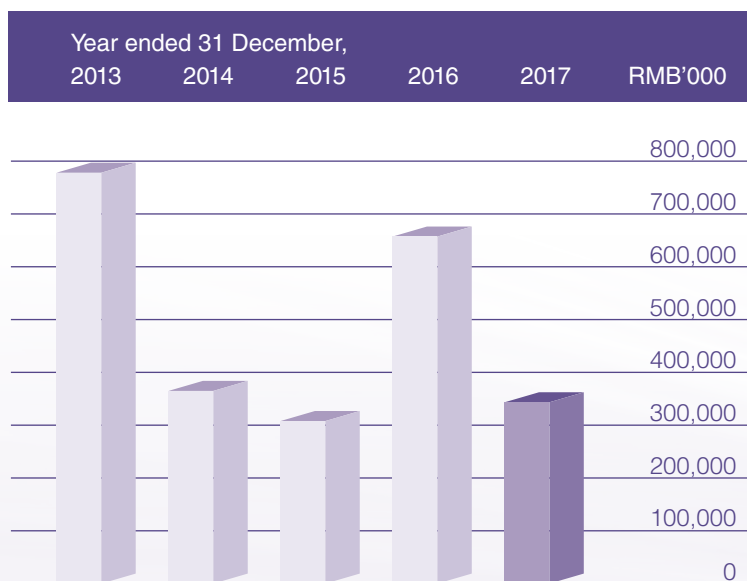
The Group brings together a pool of top talents in scientific research, technology and management, as well as a comprehensive system for quality assurance and quality control with a range of advanced production and research facilities. Its capabilities in research and development, production and manufacturing and power station construction rank the top in the power plant equipment manufacturing industry in China.

FINANCIAL HIGHLIGHTS

OPERATING INCOME



TOTAL PROFITS



FINANCIAL HIGHLIGHTS (CONTINUED)

SUMMARY OF RESULTS, ASSETS AND LIABILITIES OF THE PAST FIVE YEARS

	Unit	Year ended 31 December,				
		2017	2016	2015	2014	2013
Operating Income	<i>RMB'000</i>	31,540,324	30,929,421	25,097,225	24,026,534	20,752,889
Total Profits	<i>RMB'000</i>	343,366	657,169	307,860	364,910	778,094
Net profits attributable to owners of parent company	<i>RMB'000</i>	194,227	413,283	196,212	566,409	705,814
Total assets	<i>RMB'000</i>	64,838,093	65,867,508	64,163,245	62,161,482	60,320,723
Total Liabilities	<i>RMB'000</i>	48,695,941	51,225,093	50,246,364	48,156,430	46,026,474
Interests of minority shareholders	<i>RMB'000</i>	1,271,401	1,209,321	1,209,491	1,329,180	1,767,166
Interests attributable to owners of parent company	<i>RMB'000</i>	14,870,751	13,433,093	12,707,391	12,675,872	12,527,084
Net assets per share	<i>RMB</i>	8.714	9.757	9.230	9.207	9.099
Earnings per share	<i>RMB</i>	0.141	0.300	0.143	0.411	0.513

FINANCIAL HIGHLIGHTS (CONTINUED)

	Year ended 31 December 2017		Year ended 31 December 2016	
	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	13,871,644	2,300,519	12,169,546	2,283,434
Main hydro power equipment	1,146,213	182,329	2,484,169	189,792
Nuclear power	2,032,576	519,357	2,009,616	291,820
Engineering services for power stations	10,704,840	497,330	9,912,653	789,977
Ancillary equipment and supplementary products for power stations	1,339,076	195,206	1,437,706	228,039
AC/DC motors and other products and services	2,445,975	577,629	2,915,731	519,484
Total	31,540,324	4,272,370	30,929,421	4,302,545
Expenses not allocated to major products		-3,929,004		-3,645,376
Total Profits		343,366		657,169

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board, I hereby present the 2017 annual report of Harbin Electric Company Limited (the "Company") and its subsidiaries (the "Group").

In 2017, the Group forged ahead to crack down on difficulties during reform and made great endeavors to advance transformation and upgrading; in this year, the Group also pitched in against a freezing winter and took the initiative for changes. During the year, the Group actively responded to the grave internal and external situations and channeled every effort to meet new opportunities and challenges in the transformation and development. Centered around the strategic goals, the Group adhered to innovation-driven development, focused on upgrading and improving our performance, vigorously deepened reform, and steadily promoted our business in diverse segments, with remarkable outcomes achieved this year.

During the reporting period, the Group's turnover created a historical new high, profitability was stable overall, and delivery of products was significantly improved. Turnover for the year was RMB31.54 billion, representing an increase of 1.98% over the corresponding period last year. The board of directors is convinced that relying on sound development foundation and continued great momentum of growth, the Group faces massive potentials in its development, which will inevitably bring about excellent return to our shareholders.

During the reporting period, we remained committed to working hard on production and management, getting well prepared for the severe winter, conducting reform in tough areas, carrying out transformation and upgrading, and strengthening points of weakness. We made great efforts to speed up market development, devoted greater energy to product delivery and constantly improved product quality; we continued our efforts in cutting costs and improving efficiency, strictly controlled the level of "Two Funds", and worked to put to good use stock assets; we witnessed effective operation of the business department system, reformed on salary incentives and continued to promote physical fitness activities; we proactively participated in developing the "Belt and Road" initiative, developed new ways to operate services of new power stations, boosted the development of new industries and products, and gave full play to the underpinning role of science and technology; and sped up the construction of the informatization system, unremittingly improved basic management, made steady progress in capital operations and intensified the talent team building.

In 2018, the world economy is expected to witness continued recovery; China will remain committed to the general principle of making progress while securing steady progress in developing its economy; and the power generation equipment industry is faced with both challenges and opportunities. In light of market condition of the industry, there's a certain demand for coal-fired small and medium-sized generator units; the hydropower market ushers in the peak of pumped storage development; the steam power market maintains an upward momentum of growth; there is a mounting call for a restart in the nuclear power market. In the power station service market, there leaves larger potential for energy saving and emission reduction, and new energy market is developing rapidly. When it comes to information technology, a new wave of information technology revolution is sweeping the globe: big data, cloud computing, the Internet of things, artificial intelligence and other new technologies are experiencing explosive evolution; therefore, it's inevitable choice for the Group to highly embrace the Internet and big data, take timely actions in response to the times, give rein to advantages of being backward and catch up with others in key areas. The Group will be also motivated by "building a century-old and world-leading company" to develop it into a world-class century-old firm, thereby giving back to the shareholders.

CHAIRMAN'S STATEMENT (CONTINUED)

2018 represents a crucial period of reform and transformation for the Group and is of vital significance to propelling the implementation of strategies and concreting the foundation for its future development. Taking the strategic planning as a guideline and centered on high-quality development, the Group will get a grip by emancipating thought boost reform in quality, efficiency and driving force, and give top priority to innovation, operation, transformation, reform, strengthening weak spots and so on, so as to create fruitful returns for our shareholders.

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, 23 March 2018



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 recent years, China's economic development has made historic achievements and reform, which provides significant prerequisites for reform and development in other fields. With entering a new era, China's economy has shifted from a stage of high-speed growth to high-quality development.

In 2017, the power generation installed structure showed an obviously cleaning trend in China. By the end of the year, the national power generation installed capacity was 1.78 billion KW, representing an increase of 7.6 % over the corresponding period last year. Among them, the installed capacity of non-fossil energy power generation was 690 million KW, accounting for 38.7 % of the total installed power generation capacity, representing an increase of 2.1% over the previous year. In 2017, newly increased power generation installed capacity registered 133.72 million KW across China, of which 89.88 million KW were contributed to by non-fossil energy, and all have reached record high levels. For the entire year, the newly increased hydropower installed capacity reached 12.87 million KW, including 2 million KW contributed to by pumped storage; the newly increased grid-connected wind power installed capacity totaled up to 19.52 million KW; the newly increased grid-connected solar power generation installed capacity were 53.38 million KW, with an increase of 21.67 million KW; and newly increased thermal power installed amounted to 38.55 million KW, representing a year-on-year decrease of 1.42 million KW.

With development of the world economy and advances of global science and technology, the global mode of energy development is experiencing tremendous changes: the low-carbon and green clean energy consumption mode is gradually formed and renewable energy has risen as the main battlefield where domestic and foreign power generation equipment manufacturing industries compete in the future. As China's economic development moves forward from the high-speed growth stage to the high-quality growth one and the country is steadily pressing ahead with its supply-side structural reform, energy structure adjustment, technological revolution and capacity cutting efforts, China's power industry has entered a new stage of development which is clean and low-carbon, safe and efficient, flexible and intelligent. The proportion of thermal power generation continues to decline, thermal power enterprises are confronted with grave operation; hydropower generation maintains low-speed growth; wind power and solar power generation continue to take a lead and leaves ample room for development; the cases of wind and PV power curtailment are obviously improved; nuclear power construction, approval and commencement is expected to speed up, still with room for development in terms of installed capacity. At the same time, the pattern of the power industry dominated by renewable energy, distributed energy, microgrids, smart grids and other elements is gradually in the making and will witness rapid development.

PRODUCTION AND OPERATION

Overview

In 2017, the Group forged ahead to crack down on difficulties during reform and made great endeavors to advance transformation and upgrading; in this year, the Group also pitched in against a freezing winter and took the initiative for changes. All of the Group's leaders and workers made concerted efforts to overcome difficulties. In doing so, the Group's control capability has been significantly enhanced. Our product quality has been continuously advanced, reform has been deepened and rolled out in all aspects, transformation and upgrading has been fully launched, and the operation indicators have been fully completed.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

New contracts

Facing a complex and challenging environment in both the PRC and the rest of the world during the year 2017, the Group made every endeavor to open up the market by giving full rein to its advantages of concentrated marketing and industrial operation, thereby realizing RMB34.162 billion worth of duly signed contracts (2016:RMB34.485 billion), of which RMB14.828 billion (or 43.40% of total contract value) for thermal power equipment, RMB5.504 billion (or 16.11% of total contract value) for hydropower equipment, RMB6.819 billion (or 19.96% of total contract value) for nuclear power equipment, RMB1.322 billion (or 3.87% of total contract value) for steam equipment, RMB3.410 billion (or 9.98% of total contract value) for power stations, and RMB2.279 billion (or 6.67% of total contract value) for other products.

Thermal power industry: Domestically, the demand for newly built units remained sluggish, while energy conservation, emission reduction and cogeneration abounded with new market opportunities, and construction of small and medium-sized power stations were still active; the international market competition was increasingly fierce, with distressed demand for large-capacity units yet larger potential for small and medium-sized ones. In 2017, the Group presented prominent advantages in concentrated marketing, and won the bid for the only two sets of 1000MW ultra-supercritical generators of the five major electric power conglomerates in connection with Steam Turbines and Steam Turbine Generators Project of Datang Xinyu, which made its market share of steam turbines and steam turbine generators achieve 43% and 41% respectively, ranking the first in China and that of the boiler 36%. At the same time, the Group strengthened the market development of small and medium-sized units, regained the important markets that were previously ignored, and successively obtained a number of projects with a single-unit capacity of 60~200 MW, which provided strong support for the Company to survive the severe winter in the thermal power market.

Hydropower industry: In 2017, the hydropower market ushered in the peak of development in terms of pumped storage; the Group was awarded Shandong Wendeng Pumped Storage Project and Fujian Zhouning Pumped Storage Project with a total of 10 sets of 300 thousand KW in this regard, with its market share being 24.4%. The contract value registered RMB1.06 billion from around the globe, representing an increase of 30% year on year, signing Ethiopian Millennium EPC Project and four sets of generators with a total of 112,500 KW in connection with Guinea Souapiti Project.

Nuclear power industry: In 2017, no new nuclear power project was approved in China, and meanwhile, AP 1000 projects were suspended in large quantities and there were a few new bidding projects. However, parts of orders of the Group awarded in previous years took effect during the year. In light of new bidding projects, the Group realized its successful rates in the bidding of evaporators and main nuclear pumps, being 33% and 42% respectively and won the sole China Nuclear ACP100 Small Modular Reactor Projects in Conventional Island.

Steam power industry: While the domestic market demand remained concentrated in F-class gas turbines, the demand for H-class ones began to surface. In 2017, the Group witnessed its market share of 31 % in the steam power industry and entered into contracts for the Chinese mainland's first H-class Junliangcheng (Tianjin) Project and first new-typed 9F-class Langfang Project.

International market: affected by the continuous slowdown in global economic growth and the resultant decline in market demand, the drafted contracts or awarded projects of the Group were not formally effected or implemented due to the project progress in 2017, which resulted in failure to factor into the duly signed contracts of power engineering business, yet providing project reserves for 2018 and beyond. Meanwhile, the Group signed contracts on international project operation, maintenance and renovation worth RMB1.27 billion, an increase of nearly four times over the same period last year.

Power station service industry: Despite promising prospect in the power station transformation service market, the competition was fierce. In 2017, the Group signed the first technical agreement on complete transformation of Baise Mining Group Yin Hai Thermal Project and Datang Liaoyuan Flexibility Transformation Contract for the first time.

In addition, breakthroughs were also made in seawater desalination, waste incineration waste heat boilers, petrochemical equipment, solar photo-thermal utilization, small steam turbines and preheaters.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Production & service

When it comes to the output of main products, affected by the national energy control policy in 2017, parts of domestic thermal power projects were suspended or dismantled, and at the same time, new domestic bidding projects were on the decline and export volume decreased compared with the same period last year. During the year, since it was made clear that some of the Group's thermal power projects on hand were suspended, and the production of thermal power products was decreased year on year. In order to minimize operational risks, the Group made its product scheduling plan in a scientific and reasonable manner by taking into full account internal and external situations, users' actual needs and project implementation risk and other factors. As a consequence, output of boiler products for power stations completed in 2017 was slightly higher than that of the same period last year, while that of steam turbine generators as well as steam turbines for power stations was reduced compared with that of the same period last year. In addition, because the projects completed in 2017 were mostly small-capacity units, hydro-generator output of the Group was reduced to some extent compared with the same period last year. In 2017, output of the Group's power generation equipment amounted to 14,170 MW, down by 40.6 % over the same period last year, of which 1,900 MW were produced by water turbine generator units, down by 53.9% over the same period last year and 12,270 MW by steam turbine generators, down by 37.8% over the same period last year. Output of steam turbines for power stations was 9,830 MW, down by 36.6 % over the same period last year and that of boilers for power stations was 17,090 MW, up by 0.8 %.

In terms of international engineering projects, in 2017, the Group actively practiced the "Belt and Road" initiative, setting a 17-month record from commencement to ignition in the built Pakistan Bhikki 9H Class Gas Turbine Project and a 64-day world record from launch to ignition for Pakistan Best Drum (百路凱) Project; Indonesian Banten Project in which the Group served as general contractor and provided the main equipment, was put into commercial operation, Bangladesh Baku project was connected to the grid ahead of schedule, and Pakistan Sahiwal 660 MW Generator units was put into service smoothly. Harbin Electric International Company Limited ("Harbin Electric International"), a subsidiary of the Group, ranked 67 among the world's 250 largest international contractors, up by 21, and 13 among Chinese ones, up by 4.

Scientific research inputs and achievements

In 2017, the Group incurred a R&D expenditure of RMB1.38 billion to complete 257 R&D projects and 80 new products, receiving 27 awards for technology achievements, 16 of which were related to provincial and ministerial ones and above. Research and Engineering Demonstration on High-parameter Ultra-supercritical Two-stage Reheating Key Technologies and (Ultra) Ultra-supercritical Pulverized Coal Wall-type Tangential Horizontal Fuel Staged Combustion Technology, which were conducted by Harbin Boiler Company Limited ("Boiler Company"), a subsidiary of the Group, were honored with China Award for Electric Power Innovation and the First Prize for Technological Invention of Heilongjiang Province respectively.

In 2017, the Group gave full play to the supporting roles of science and technology and completed the phased work established by the Central Research Institute. The annual plan was accomplished for system integration, undergoing complete sets of transformation, multi-energy complementary technology improvement, industrial big data and other projects. A model for evaluating the comprehensive competitiveness of science, technology and quality was built. Jarud Unit 2, the world's first 300 megavar fully air-cooled phase modifier with fully independent intellectual property rights, was successfully connected to the grid at a time; coal-fired coupled garbage power generation technology was approved in the review organized by the National Energy Administration (NEA) of the PRC, becoming the first coal-fired coupled garbage power generation technology passing on the review of NEA. Development was accomplished on megawatt water-hydrogen cooled steam turbine generators with complete independent intellectual property rights. Large thermal power megawatt-class single-series high-speed heaters and steam coolers reached the international advanced level. Multi-stage small-enthalpy current drop, high pressure red sleeve inner cylinder, valve direct connection and other steam turbine technologies were verified in practice.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

New products and new industries

In 2017, the Group thoroughly implemented the national structural reform on the supply side, actively and vigorously pushed forward the adjustment of industrial structure and the development of new industries such as wind power generation and photo-thermal power generation. Additionally, the Group channeled greater energy to expand the marine power field, and also strengthened more efforts in R&D in the fields like water treatment, biomass coupling, garbage power generation, island multi-energy complementation and high-end valves, to speed up the development process of new industries.

Management and innovation

Effective results were achieved in reforming the divisional organization system. Steam Power Division and Power Station Service Division were established, with the staffing basically in place, the marketing fully launched and the operation entering into a normal state; Steam Power Division achieved remarkable achievements in complete supply and Power Station Service Division developed a new way of project management and expanded the marketing channel by means of information technology. Gas Turbine Division intensified its marketing team building, divided the market according to the region, and formulated the implementation opinions on development of medium and small-sized gas turbines and distributed energy sources. Nuclear Power Division implemented one-to-one marketing and TOP10 management.

Innovative mode was created to operate power station service. "Internet+federal reserve+service" mode was launched to settle successfully in Guoneng e-shopping mall. Information service platform was on line from the Group side. Development was initiated across the board on the thermal power system for remote intelligent operation, maintenance and fault diagnosis.

Negotiations were concluded for the joint venture of heavy gas turbines. The Group signed with GE (China) Co., Ltd. the Contract for a Joint Venture Enterprise which agreed reestablishing a joint venture company for R&D, manufacturing and service of heavy gas turbines, so as to lay the foundation for development of heavy gas turbines by the Group. (Such joint venture project should come into effect upon the approval of the board of directors of both parties).

The civil-military integration development is pushed forward with all efforts. The Ship Power Department is established to actively make strategic cooperation plans for civil-military integration.

Capital expenditure and significant investments held

In 2017, the Group injected a total of capital expenditures worth RMB881 million for major construction and technological transformation projects. The major projects include:

Technology upgrading project for building nuclear turbine core capacity of Harbin Turbine Company Limited, manufacturing base improvement project for main nuclear pump motor units of Harbin Electric Power Equipment Company Limited (HEPE), manufacturing capacity enhancement project for key nuclear pump and key equipment for long-distance natural gas pipeline of HEPE and Hassyan Project in Dubai of Harbin Electric International Company Limited. The first two were technological transformation projects designed for nuclear power products, could satisfy the needs of the Group's nuclear power technology development, improve the core manufacturing capacity of nuclear power products and break through the bottleneck of manufacturing main equipment and key components of nuclear power conventional islands; at present, the civil engineering sections of the projects have been completed. The third one could meet the Group's independent production needs required by 1000 MW nuclear power main pumps as well as high-power synchronous motors for natural gas long-distance pipelines and boost the core manufacturing capacity of products; at present, equipment procurement, installation and debugging are underway for this project. The last one was specifically acquiring apartments in Dubai which would serve as a living camp for Chinese project managers and is now completed.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

In 2018, the Group intends to commit an investment of RMB648 million in key construction and technological transformation projects, including its own funds of RMB411 million, RMB16 million in loans and RMB221 million in state funds. The fund is mainly used for the follow-up promotion of the projects above, that is, process development and product manufacturing project of high temperature gas cooled reactor steam generators, heat regenerators and testing main body and independent manufacturing improvement project of nuclear power and nuclear island main equipment of Harbin Electric Corporation (QHD) Heavy Equipment Company Limited. These projects will boost independent innovation ability and competitiveness of the company, promote development of advanced nuclear power with independent intellectual property rights and break through the bottleneck of product quality and mass sets manufacturing.

Major acquisitions and sales of subsidiaries, associates and joint ventures

In 2017, the company carried out no major acquisitions or sales of subsidiaries, associates and joint ventures.

MAJOR FINANCIAL INDEXES

In 2017, the Group expanded its sales while securing a steady sales scale. However, impacts of the macroeconomic environment both at home and abroad, industry development trends, falling prices of product orders, increased prices of raw materials, continual appreciation of RMB and extended period of the accounts receivable hindered a rise in profitability.

The Group's analysis on revenue and performance for 2017 according to business is set out in Note V (48) to the financial statements of this annual report.

Profit

In 2017, net profit attributable to the owner of the parent company realized by the Group registered RMB194.23 million, representing a decrease of 53.00% over the same period last year; earnings per share were RMB0.14, down by RMB0.16 year on year. The decrease in the Group's profit was mainly attributable to: first, the extended period of the accounts receivable, an increase in suspended and deferred projects and in provisions; second, RMB appreciation and increased exchange losses; and third, a year-on-year increase in labor costs.

Operating income

In 2017, the Group recorded an operating income of RMB31,540.32 million, representing an increase of 1.98 % over the same period last year, of which operating income from the main thermal power equipment (including thermal power and steam power products) was RMB13,871.64 million (or 43.98% of the total operating income), representing a year-on-year increase of 13.99%. Operating income from main hydropower equipment was RMB1,146.21 million (or 3.63% of the total operating income), representing a year-on-year decrease of 53.86%. Operating income from engineering services for power stations was RMB10,704.84 million (or 33.94% of the total operating income), representing a year-on-year increase of 7.99%. Operating income from ancillary equipment and supplementary products for power stations was RMB1,339.08 million (or 4.25% of the total operating income), representing a year-on-year decrease of 6.86%. Operating income from AC/DC motors and other products and services was RMB2,445.98 million (or 7.76% of the total operating income), representing a year on-year decrease of 16.11%. Operating income from nuclear power products was RMB2,032.58 million (or 6.44% of the total operating income), representing a year-on-year increase of 1.14%. The overall sales scale of the Group remained stable, and the sales of steam power equipment as well as million class steam turbine products for power stations raised the revenue proportion of thermal power host equipment segment. However, with the gradual completion of the transformation of old units in China, the market scale of auxiliary equipment and unit transformation projects continued to decline, and the revenue proportion of corresponding segment decreased year by year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

In 2017, the Group recorded an income of export of RMB10,603.15 million (or 33.62% of the total operating income), increasing by RMB501.51 million over the previous year. The export was dominated by Asia and South America, in which export to Asia amounting to RMB8,740.92 million while export to South America amounting to RMB1,164.63 million.

Costs

In 2017, the group's operating cost was RMB27,267.95 million, representing an increase of 2.41 % over the same period last year, mainly due to the expansion in sales scale.

Gross profit and gross profit margin

In 2017, the Group realized a gross profit from operating business of RMB4,272.37 million, representing a year-on-year decrease of 0.70%. The gross profit margin was 13.55%, representing a year-on-year decrease of 0.36%. The gross profit from main thermal power equipment was RMB2,300.52 million, increasing by RMB17.09 million over the previous year. The corresponding gross profit margin was 16.58%, representing a year-on-year decrease of 2.18%. The gross profit from main hydropower equipment was RMB182.33 million, decreasing by RMB7.46 million over the previous year. The corresponding gross profit margin was 15.91%, representing a year-on-year increase of 8.27%. The gross profit from engineering services for power stations was RMB497.33 million, decreasing by RMB292.65 million over the previous year. The corresponding gross profit margin was 4.65%, representing a year-on-year decrease of 3.32%. The gross profit from ancillary equipment and supplementary products for power stations was RMB195.21 million, decreasing by RMB32.83 million over the previous year. The corresponding gross profit margin was 14.58%, representing a year-on-year decrease of 1.28%. The gross profit from the AC/DC motors and other products and services was RMB577.63 million, increasing by RMB58.14 million over the previous year. The corresponding gross profit margin was 23.62%, representing a year-on-year increase of 5.80%. The gross profit from the nuclear products was RMB519.36 million, increasing by RMB227.54 million over the previous year. The corresponding gross profit margin was 25.55%, representing a year-on-year increase of 11.03%. The Group's gross profit margin declined slightly. There are three reasons for this. First, thermal power capacity was excessive in China, the volume of products launched in the market decreased year by year, and the tender price of products continued to decline. Second, due to volatility in commodity price, steel price rose faster, by the end of the period, the steel price index increased 22.4% comparing with that at the beginning of the period, and material costs of products increased significantly. Finally, due to appreciation of the RMB, contract price converted of power station engineering service projects were decreased, which led to weakened comprehensive profitability of projects.

Expenses for the Period

In 2017, the Group's distribution expenses amounted to RMB639.38 million, representing an increase of RMB1.14 million or 0.18% over the corresponding period last year. Administrative expenses incurred amounted to RMB2,253.71 million, representing a year-on-year increase of RMB117.01 million or 5.48%, of which labor cost increased more significantly than that in the previous year. Finance costs incurred was RMB322.79 million, representing a year-on-year increase of RMB195.28 million or 153.16%; appreciation of the RMB contributed to an increase in exchange losses.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Funding source and borrowing 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 2017, the Group's total borrowings amounted to RMB3,283.57 million (31 December 2016: RMB2,089.34 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 RMB3,083.57 million, representing an increase of RMB994.23 million as compared to the beginning of the year; and the amount repayable after one year was RMB200.00 million, representing an increase of RMB200.00 million as compared to the beginning of the year. As of 31 December 2017, the borrowings made by the Group were all in RMB and there was no amount due. The repayment plan has been made for the borrowings that were not due, with no risk of default. Relevant bank borrowings and details of other borrowings were set out in Note V(23) & Note V(35) to the financial statements of this annual report.

Monetary capital and cash flows

As at 31 December 2017, the monetary capital of the Group was RMB16,165.24 million, representing a decrease of RMB1,924.67 million as compared to the beginning of the year. During the period, the net cash flow generated from operating activities of the Group was -RMB2,692.25 million, while investing activities generated negative net cash flow of -RMB1,509.12 million and financing activities generated negative net cash flow of RMB2,293.83 million. As the Group's major customers were in a tight financial condition paying with bills in large quantities instead of cash, cash flows from operating activities and monetary funds were on the decline.

Asset structure and movements

As at 31 December 2017, the total assets of the Group amounted to RMB64,838.09 million, representing a decrease of RMB1,029.41 million (or 1.56%) as compared to the beginning of the year, of which current assets were RMB56,018.79 million, representing 86.40% of the total assets, while non-current assets were RMB8,819.30 million, representing 13.60% of the total assets.

Liabilities

As at 31 December 2017, total liabilities of the Group amounted to RMB48,695.94 million, representing a decrease of RMB2,529.15 million as compared to the beginning of the year, of which current liabilities were RMB47,075.55 million, representing 96.67% of the total liabilities, while non-current liabilities were RMB1,620.39 million, representing 3.33% of the total liabilities. As at 31 December 2017, the gearing ratio of the Group was 75.10%.

Owners' interests

As at 31 December 2017, the total equity attributable to the owners of the parent company amounted to RMB14,870.75 million, representing an increase of RMB1,437.66 million as compared to the beginning of the year; the net asset per share was RMB8.71, representing a decrease of RMB1.05 as compared to the beginning of the year. During the period, the return rate on net assets of the Group was 1.37%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Gearing ratio

As at 31 December 2017, the gearing ratio of the Group (non-current liabilities to total shareholders' equity) was 0.11: 1, compared with that of 0.33: 1 at the beginning of the year. The Group's RMB3 billion corporate bonds will mature in March 2018 and on 31 December 2017 were reclassified to non-current liabilities due within one year, with a significant decrease in non-current liabilities.

Contingent liabilities and pledges

As at 31 December 2017, the Group pledged its assets of RMB121.76 million to secure loans for liquidity.

Exposure to fluctuations in exchange rate

Some of the deposits of the Group are denominated in foreign currencies. As at 31 December 2017, the amount of the Group's deposits in foreign currency was equivalent to RMB1,603.61 million. The export business and foreign currencies settled businesses expose the Group to exchange risk.

Use of fund-raising proceeds

The Group has fully utilized its proceeds from issuance of shares and bonds in previous years, and the fund of RMB1,270.00 million from fund-raising activities was not utilized yet for this year.

Dividend

A final dividend of RMB0.015 per share (appropriate tax included) for 2017 was proposed by the Board.

PROSPECTS

Base on comprehensive analysis on the situation both at home and abroad, China faces both opportunities and challenges. The recovery of the world economy is expected to continue, but there are many uncertainties and instability at play: policy adjustments of major economies and their spillover effects generate variables; protectionism becomes serious, and geopolitical risks are rising. China's economy is in a critical period of transforming the mode of development, improving the economic structure and shifting the growth driver, we need to address predictable and unpredictable risks and challenges.

In light of the market situation of the power generation equipment manufacturing industry, the thermal power market will continue a downward trend, with demand for large-scale units decreasing sharply and a certain demand for small and medium-sized generator units. The hydropower market ushers in the peak of pumped storage development. The steam power market maintained an upward momentum. There is a growing call for a restart in the nuclear power market. In the power station service market, there leaves larger potential for energy saving and emission reduction and a certain space for carrying out heating and power generation simultaneously. The new energy market is developing rapidly. Therefore, the power generation equipment manufacturing industry is confronted with both challenges and opportunities; we must draw on reform and innovation to speed up fostering new momentum of development.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

The Group will commit itself to the following efforts by taking as a guideline the 13th Five-Year Plan and being centered around high-quality development: continuing its efforts in improving the competitiveness of the thermal power market, optimizing the performance of generator units and accelerating the transition to clean and efficient thermal power; speeding up the process of independent design and manufacturing of pumped storage units; actively participating in the implementation of major national special projects and enhancing the level of domestic manufacturing; further improving capacity building of the nuclear power industry and shoring up capacity in weak spots; building the whole industry chain service mode to move towards the transformation to manufacturing-service-driven development; accelerating technology introduction and boosting rapid development of wind power, photothermal and other industries; and making breakthroughs in the field of new energy industry. We will give high priorities to innovation, operation, transformation, reform and improvement in weak areas to survive the furious winter with more vigor and vitality, towards the path of rejuvenation.

Harbin, the PRC, 23 March 2018

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 a member of the first session of academic committee of National Key Laboratory of Hydro-electric Power Generating Equipment (水力發電設備國家重點實驗室) and the vice chairman of the seventh session of council of China Energy Research Society (中國能源研究會). 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 standing member of the Party Committee and deputy general manager of HE and an executive director and a senior Vice-president of the Company. 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.

Independent non-executive directors

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.

Mr. Yu Wen-xing, born in October 1953, is a retired senior engineer at professor level with a university degree and now serves as an independent non-executive director of the Company. Mr. Yu served as a deputy director of Beijing representative office, head of international cooperation department and office head of China Three Gorges Corporation, deputy director of the preparation office of Jinshajiang Development Co., Ltd. (金沙江開發有限責任公司) of China Three Gorges Corporation, head of construction department at Xiangjiaba Dam, assistant to the general manager of China Three Gorges Corporation and director, party committee member and head of discipline department of China Three Gorges Corporation, 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. 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Tian Min, born in November 1956, is a retired senior accountant at researcher level with a college degree · enjoys the special allowance from the State Council and now serves as an independent non-executive director of the Company. Mr. Tian started his career in 1974. He was a head, deputy chief accountant, deputy general manager and chief account of accounting division of Nanchang Aircraft Manufacturing Corporation (南昌飛機製造公司), general manager of Hongdu Aircraft Industry Co., Ltd. (洪都飛機工業有限公司), chief account, deputy party committee secretary, director, party committee secretary and chairman of Jiangxi Hongdu Aviation Industry Group Co., Ltd. (江西洪都航空工業集團有限責任公司), chief accountant and member of party group of China Aviation Industry Corporation II (中國航空工業第二集團公司), and chief accountant and member of party committee of Commercial Aircraft Corporation of China, Limited and retired in May 2017. He has been appointed as independent non-executive director of the Company since March 2018.

Mr. Yu Bo, born in October 1960, is a professor with a doctor degree, tutor for doctoral candidates, 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. He has been appointed as independent non-executive director of the Company since December 2009 and resigned in March 2017.

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 the president and chief executive officer of China Enterprise Appraisal Co., Ltd.. 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 and resigned in December 2017.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

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 Chairman of the Supervisory Committee of the Company and the director and deputy party group secretary of China Shipbuilding Industry Group Co., Ltd. (中國船舶重工集團有限公司). 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 1987 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.

Mr. Zhu Peng-tao, born in April 1973, aged 44, is a senior auditor with a master degree. He is currently the deputy director of No. 1 Auditing Division under the Audit Department of the Company and the supervisor of 哈爾濱哈電醫院管理有限公司. Mr. Zhu graduated from Harbin University of Science and Technology, majoring in auditing, and then further obtained a master degree in Engineering from the same university. Mr. Zhu started his career in July 1998. He has been a staff member and the chief of the Planning Division of 哈電集團哈汽實業公司 and the auditing business director of the Audit Department of HE and the Company. He has served as the deputy director of No. 1 Auditing Division under the Audit Department of the Company since August 2016. He has been as a supervisor representing shareholders of the Company since May 2017.

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. He now serves as independent non-executive director of China Telecom Corporation Limited. 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 has been an independent supervisor of the Company since December 2009 and resigned in May 2017.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

SENIOR MANAGEMENT

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.

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 September 2000 and the Vice-President of the Company since March 2013.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

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 generation equipment and provision of power station engineering services, and its major business segments currently include: manufacturing of large scale thermal power, hydro power, nuclear power and its ancillary equipment, turnkey construction of power station projects, development, design and manufacturing of major products such as power equipment of ships and electric power equipment etc. The operations of the Group are mainly located in China, with approximate two-third of its revenue deriving from China.

As of 31 December 2017, the revenue from export of products of the Group amounted to RMB10,603.15 million, representing 33.62% of the Group's total operating income. The Group's major regions for export included Asia and South America, which respectively accounted for 27.71% and 3.69% of the Group's total turnover.

BUSINESS REVIEW

Details of a fair review of the Group's business in 2017, key financial performance indicators and possible future developments of the Group are set out in the section headed "Management Discussion and Analysis" of this Annual Report.

Major Risks and Uncertainties

In 2017, the Group actively carried out the collection and analysis of risk information. In line with the characteristics of the industry, the Group categorized, gathered, weighted and analyzed the five types of risk information from strategy, market, finance, law, and operations. By adopting a "from bottom to top" vertical and horizontal integration, internal and external combination" evaluation method, it identified six major risks, such as going-concern risk, accounts receivable risk and market competition risk, etc., and took effective measures to reduce the risk.

REPORT OF THE DIRECTORS (CONTINUED)

Major Risks	Risk Description	Principal Measures
Continuing operating risk	Matters or situations existing in the operation or finance of the Company that may lead to major risk on its continuing operating assumptions.	<ul style="list-style-type: none"> ① Vigorously carry forward the reform; ② Accelerate industrial restructuring; ③ Continue to tap internal potentiality to reduce costs and increase efficiency.
Accounts receivable risk	The company receives project progress payments and quality guarantees as stipulated in the contract, but progress payments and quality guarantees in practical business may not be received in time, resulting in bad-debt risks and even failure to recover.	<ul style="list-style-type: none"> ① Keep abreast of the amount of accounts receivable; ② Intensify assessment efforts and comprehensively clear accounts receivable; ③ Focus on the receiving of outstanding debts; ④ Take legal measures actively when appropriate.
Market competition risk	The market puts the Company in the risk of failing to achieve its anticipated profits and even loses in economic benefits.	<ul style="list-style-type: none"> ① Actively increase the share of traditional industry on the market; ② Maintain the market share of central and provincial enterprises, while tap the market potential of private enterprises; ③ Increase investment in development of international market; ④ Focus on layout of power station service industry; ⑤ Actively exploit and lay out the new energy industry sector;
Risk of backward in technique (scientific achievements)	The conservative and stagnant development in technology result in uncertainties that have substantial impact on the economic interests of the Company.	Strengthen research of cutting-edge and key technologies in the industry, accelerate the optimization and upgrading of product technology.
Inventory risk	Loss of inventory value due to changes in price, outdated, natural losses, etc., or risks of slow inventory turnover and large inventory losses etc. resulting from lack of inventory management awareness, governance mechanism.	<ul style="list-style-type: none"> ① Reduce inventory and intensify assessment efforts; ② Increase the substitution and sharing use of inventory materials ③ Strengthen the management on procurement planning.
Product quality risk	Negative effects and influence on the Company's economic benefits resulting from product defects or flaws.	<ul style="list-style-type: none"> ① Strengthening the implementation of quality responsibility; ② Conduct product quality inspections; ③ Carry out projects of product quality improvement and achieve effective results; ④ Perfect customer satisfaction evaluation; ⑤ Upgrade quality program control on product manufacturing.

REPORT OF THE DIRECTORS (CONTINUED)

Significant Events Affecting the Group

Significant events affecting the Group in 2017 are set out in the section headed “Disclosure of Significant Events” in this annual report.

Environmental Policy and Performance

In 2017, the Group continued to realize its social responsibility of “Friendly Environment, Warm Home” to highlight scientific development as the main principle, devoted into maintaining a high standard of corporate governance, continuously enhanced supply chain management, and improved product quality to upgrade the operation value. It continued to carry out environmental protection activities, vigorously promote energy conservation and emission reduction, enhance the harmonious relationship between human and nature, maintain effective communication with employees, suppliers, customers, market investors, and other stakeholders, taking the interests of related parties into account, creating a mutually beneficial and win-win relationship to continuously promote the healthy development of the Company.

The 2017 Environmental, Social and Governance Report of the Group will be disclosed separately before 30 June 2018.

REPORT OF THE DIRECTORS (CONTINUED)

Compliance with Relevant Laws and Regulations

In 2017, none of non-compliant events occur to the Group with respect to relevant laws and regulations. Relevant laws and regulations are listed as follows:

Principal Laws and Regulations	Key scope	Compliance Measures
Contract Law of the People's Republic of China	The company's business contract signed with customers must comply with basic requirements stipulated in the Contract Law.	<ol style="list-style-type: none">1. Business contracts signed by each business department of the Company need to be reviewed by the company's legal advisers.2. The legal adviser puts emphasis on reviewing the main terms of the contract subject, contract subject, quantity, quality, price or remuneration, performance period, place, method, liability for breach of contract and dispute resolution, proposes amendments and controls contract legal risk of the Company.
Securities Law of the People's Republic of China and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited	Relevant regulations required to be comply with by the Company as a securities issuer.	The company appoints professional legal advisers to assist with related work as the securities issuer and formulates related systems to regulate internal governance and information disclosure and other related works.
Tendering and Bidding Law of the People's Republic of China	The tendering activities and procurement of the Company must be strictly carried out in accordance with the Tendering and Bidding Law.	<ol style="list-style-type: none">1. Participating in the bidding, the company must set up a particular team to convene evaluation meeting before bidding, and departments including operation, finance and legal shall attend the meeting and give professional advices.2. In accordance with the "Administrative Measures on Tendering Procedures" and other regulations, the Company must conduct open tendering or selective tendering if purchases reach certain amount.
Labor Law of the People's Republic of China and Labor Contract Law of the People's Republic of China	When entering into or terminating an employer-employment relationship, provisions of the Labor Law and the Labor Contract Law must be followed by both the Company and employees.	A fixed labor contract model and cancelling clauses reviewed by the legal department should be possessed by the human resources department of the Company.
Intellectual property rights laws, mainly include: Copyright Law, Patent Law, Trademark Law	Relevant laws on intellectual property rights should be strictly abided by on the production and operation, technology research and development and commercial brand protection of the Company.	The company's technology management department is responsible for centralized management of the company's intellectual property rights. The assistance from legal adviser of the Company is required by the application of intellectual property rights and the protection of trademark and goodwill. Electric Machinery Company and Boiler Company, subsidiaries of the Company, have successfully applied for well-known trademarks in China.

REPORT OF THE DIRECTORS (CONTINUED)

Employees, Major Customers and Suppliers

1. *Employees*

In 2017, the Group had 17,926 employees on average, of which female employees totaled 3,107, accounting for 17%. As of 31 December 2017, the Company had a workforce of 15,459 current employees, of which female employees totaled 2,830, accounting for 18.3%, 1,267 employees aged above 55, accounting for 8.2%; 2,588 employees aged 50-54, accounting for 16.7%, 4,329 employees aged 40-49, accounting for 28.1%, 5,169 employees aged 30-39, accounting for 33.4% and 2,106 employees aged below 29, accounting for 13.6%.

In 2017, with recent decline in domestic demand for coal and electricity, the Group downsized staff for efficiency and reduced labor costs to increase its competitiveness in the market, which results in a decrease in the amount of employee from 2016.

In 2017, the Group organized 1,712 classes in total for various trainings, with 57,000 persons participating in.

2. *Major suppliers*

As of 31 December 2017, the top five suppliers of the Group attributed 19.57% of the total purchases, of which the largest supplier was GE Energy Products France, SNC, accounting for 9.01% of the total purchases. Amongst the other major suppliers, Hangzhou Boiler Group Co., Ltd. (杭州鍋爐集團股份有限公司), GE ENERGY PARTS INTERNATIONAL, LLC, MITSUBISHI and China First Heavy Industries accounted for 3.41%, 2.76%, 2.36% and 2.03% respectively.

3. *Major customers*

As of 31 December 2017, the Group's top five customers attributed 29.74% of total operating revenue, of which the largest customer was National Power Parks Management Company (pvt.) Limited, which accounted for 8.20% of total operating revenue. Amongst the other major customers, China Energy Investment Corporation Limited, China Huaneng Group Co., Ltd., Haxiang coal-fired power plant project Company (哈翔燃煤電廠項目公司) and Kolin Company (the owner of Turkey Suma Project) (土耳其速馬專案業主Kolin公司) represented 5.76%, 5.61%, 5.35% and 4.81% respectively.

None of the Directors, Supervisors, their associates and 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)

LIST OF SUBSIDIARIES AND DIRECTORS OF SUBSIDIARIES

Details of major subsidiaries of the Company and directors of the subsidiaries as of 31 December 2017 are set out in note 7 to the financial statements of this annual report.

RESULTS

As of 31 December 2017, the operating income of the Group amounted to RMB31,540.32 million, and net profit attributable to the shareholders of the parent company was RMB194.23 million. The results of the Group for the year ended 31 December 2017 are set out in the consolidated income statement of this annual report.

DIVIDEND

A final dividend of RMB0.015 per share (appropriate tax included) for 2017 was proposed by the Board. The total dividend payable amounted to RMB25.5978 million (dividend paid for 2016 by the Company was RMB0.03 per share, total dividend paid was RMB41.3042 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 before 23 March 2018, which is RMB1 to HK\$1.2393. Each shareholder of H shares will receive a dividend of HK\$0.0186 per H share.

The 2017 final dividend distribution plan will be considered and approved at the 2017 annual general meeting to be held by the Company on 25 May 2018.

As of 31 December 2017, 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 final dividend for the year of 2017 of the Company will be distributed on 25 July 2018, and the register of members of the Company will be closed from 11 June 2018 to 15 June 2018 (both dates inclusive). Final dividends for the year of 2017 of the Company will be distributed to shareholders whose names appear in the register of members of the Company on 11 June 2018. In order to be qualified for the final dividends for 2017, 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 8 June 2018.

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. 11 June 2018. 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.

According to the requirements of local tax authorities, the individual shareholders of H share of the Company who need personal income tax clearance certificates shall provide their passport information, therefore, for those individual shareholders of H share of the Company who need the personal income tax clearance certificates, please delivery the copy or scanning copy of their passports to the contact address of the Company before 30 days from the date of the dividend payment, and for those shareholders of H share who fail to provide their passport information, the Company will withhold and pay individual income tax collectively.

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.

REPORT OF THE DIRECTORS (CONTINUED)

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.

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

As of 31 December 2017, 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 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 of 31 December 2017, 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 of 31 December 2017, 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 of 31 December 2017, save as the connected and continuing connected transactions entered into the Group and HE as disclosed in "Report of the Directors", no contract of significance was entered into between the Group and the controlling shareholders or their subsidiaries.

REPORT OF THE DIRECTORS (CONTINUED)

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, shareholder representative supervisors and 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. None of the directors waived or agreed to waive any remuneration.

The remuneration of the directors and supervisors of the Company as of 31 December 2017 is as follows: (Unit: RMB)

	Fees	Wages and other benefits	Contribution to retirement benefits scheme	Total
Executive Directors				
Mr. Si Ze-fu	0	0	0	0
Mr. Wu Wei-zhang	0	482,500	76,572	559,072
Mr. Zhang Ying-jian	0	458,600	74,047	532,647
Mr. Song Shi-qi	0	448,700	76,572	525,272
	0	1,389,800	227,191	1,616,991
Independent Non- Executive Directors				
Mr. Zhu Hong-jie (appointed on 20 March 2017)	0	50,000	0	50,000
Mr. Hu Jian-min (appointed on 20 March 2017)	0	50,000	0	50,000
Mr. Yu Wen-xing	0	60,000	0	60,000
Mr. Yu Bo (resigned on 20 March 2017)	0	0	0	0
Mr. Liu Deng-qing (resigned on 29 December 2017)	0	100,000	0	100,000
	0	260,000	0	260,000
Supervisors				
Mr. Feng Yong-qiang	0	448,700	76,572	525,272
Mr. Chen Guang	0	372,480	75,435	447,915
Mr. Zhang Jun-quan	0	290,808	53,417	344,225
Mr. Zhang Wen-ming	0	274,339	31,068	305,407
Mr. Zhu Peng-tao (appointed on 26 May 2017)	0	142,260	19,026	161,286
Mr. Xu Er-ming (resigned on 26 May 2017)	0	40,000	0	40,000
	0	1,568,587	255,518	1,824,105

REPORT OF THE DIRECTORS (CONTINUED)

Details of the remuneration of directors, supervisors and senior management of the Company as of 31 December 2017 are set out in note X(5) to the financial statements in this annual report.

FIVE HIGHEST PAID PERSONNEL

As of 31 December 2017, the five highest paid personnel in the Company are senior management of the Company and its subsidiaries. Remuneration of four of them was HK\$1 million but below HK\$1.5 million, one of them received remuneration over HK\$1.5 million but below HK\$2 million.

	Fees	Wages and other benefits	Contribution to retirement benefits scheme	Total
Total remuneration of the five highest paid personnel	HK\$0	HK\$5.8885 million	HK\$1.0679 million	HK\$6.9564 million

CONTINGENT LIABILITIES – GUARANTEES

As of 31 December 2017, total internal guarantees in favour of the Group made by the Company and its subsidiaries amounted RMB1,419.10 million. No external guarantee was provided. Details of guarantees are set out in note XI(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 2017 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 of 31 December 2017, the Company has no significant investment in securities.

STAFF REMUNERATION, RETIREMENT AND BENEFITS SCHEME

In 2017, the Group continued to deepen its remuneration reform, and further increased the salary distribution to its production core staffs, key positions with significant contribution and backbone persons, so as to make a better flexibility for the income distribution of our staff and promote their enthusiasm, initiative and creativity and also to realize that the income distribution will be matched with economic benefit growth and improvement of labor efficiency, with a view to establishing a harmonious income distribution relationship.

In 2017, the total salaries of the Group amounted to RMB1,744.74 million. Currently, the Group has no long-term award scheme.

Details of the staff retirement and benefits scheme are set out in Note V(28) to the financial statements in this annual report.

REPORT OF THE DIRECTORS (CONTINUED)

FIXED ASSETS

As of 31 December 2017, the fixed assets of the Group amounted to RMB5,960.72 million, details of the movements in fixed assets of the Group are set out in Note V(15) to the financial statements in this annual report.

PROFITS AVAILABLE FOR DISTRIBUTION

As of 31 December 2017, the Company's undistributed profits available for distribution are RMB991.04 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.

FINANCIAL HIGHLIGHTS

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

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

As of 31 December 2017, 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 2017 are set out in the note XI(2) to the financial statements in this annual report.

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

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. The continuing connected transactions of the Company are monitored by the responsible departments, including the economic operations department, asset finance department and secretariat of the Board. The amendment of relevant system and pricing policies are carried out by the responsible departments which are in charge of relevant works and shall be approved by the Board after discussion with the management of the Company. In addition, relevant pricing systems, process and their implementation are supervised by the responsible departments, and those of our subsidiaries were monitored by relevant departments so as to ensure continuing connected transactions were carried out in accordance with their systems.

The annual review of continuing connected transactions by independent non-executive directors of the Company were based on the annual progress of continuing connected transactions detailed state in the annual report and financial report of the Company, and also the review letter of annual progress of continuing connected transactions issued by the auditor of the Company. The independent directors, where appropriate, inquiry to the management to ensure that sufficient information is obtained to review such transactions and internal control procedures. The independent non-executive directors can ensure that independence to(i) the methods and procedures established by the issuer are sufficient to ensure that the transaction conducted on normal commercial terms and does not prejudice the interests of the issuer and the minority shareholders; and(ii) the issuer has in place internal monitoring procedures, and these transactions were also reviewed by internal audit function.

REPORT OF THE DIRECTORS (CONTINUED)

Details of connected transactions and continuing connected transactions of the Company as of 31 December 2017 are set out Note X(5) to the financial statements in this annual report. The Company also confirmed that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of such connected transactions and continuing connected transactions.

As of 31 December 2017, 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 Co., Ltd (“HE”)*

On 9 December 2016, the Company entered into 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 2017 to 31 December 2019.

During the financial year from 1 January 2017 to 31 December 2017, the transaction cap for providing services by the Group 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 RMB12 million, while the actual transaction amount was RMB5.56 million. The transaction cap for receiving services by the Group from the Unlisted Harbin Electric Group was RMB84 million, while the actual transaction amount was RMB55.41 million; the transaction cap for purchasing products to the Unlisted Harbin Electric Group was RMB195 million, while the actual transaction amount was RMB61.28 million. The amounts of such transactions did not exceed the cap.

2. *Financial Service Framework Agreement between the Company and HE*

On 9 December 2016, the Company and HE entered into a financial service framework agreement, pursuant to which, HE Finance Company Limited (the “Finance Company”), a subsidiary of the Company, will provide financial services including depository services, loan services and other financial services to the Unlisted Harbin Electric Group, from 31 December 2016 to 30 December 2019.

During the financial year from 1 January 2017 to 31 December 2017, the unlisted group under Harbin Electric Group has highest cumulative daily loan services balance from the Finance Company was RMB220 million, of which the actual transaction amount was RMB200 million; the maximum service charges and handling fees from other financial services provided by the Finance Company to the unlisted group under Harbin Electric Group was RMB2.8 million, of which the actual transaction amount was zero, both of which did not exceed the cap.

REPORT OF THE DIRECTORS (CONTINUED)

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

On 29 January 2016, 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 2016 to 22 March 2019 and HE shall pay an annual management entrustment fee of RMB3.28 million to the Company.

As of 31 December 2017, HE has fully paid the management fee of RMB3.28 million to the Company.

Connected Transaction

1. *Domestic Shares Subscription Agreement entered into by the Company With HE*

On 4 September 2017, the Company entered into a Domestic Shares Subscription Agreement with HE, pursuant to which, HE has agreed to subscribe in cash for Domestic Shares issued by the Company at a total subscription price of approximately RMB1.27 billion. The transaction has been completed in January 2018, details of which are set out in the status of share issue in the "Report of the Directors".

Confirmation on Continuing Connected Transactions

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

1. these continuing connected transactions had been entered into according to the agreement governing them on terms that are fair and reasonable and in the interests of shareholders of the issuer as a whole;
2. these continuing connected transactions had been entered into on normal commercial terms or better;
3. these continuing connected transactions had been entered into in the ordinary and usual course of business of the issuer.

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 and confirmed that:

A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS (CONTINUED)

STATUS OF SHARE ISSUANCE

On 4 September 2017, the Company entered into a Domestic Shares Subscription Agreement with HE, pursuant to which, the Company has agreed to issue and HE has agreed to subscribe in cash for Domestic Shares at a total subscription price of approximately RMB1.27 billion (“The Issuance”). On 1 December 2017, The subscription of New Domestic Shares of the Company by HE at a total subscription price of approximately RMB1.27 billion was approved at the extraordinary general meeting and general meeting for holders of H Shares of the Company. According to the subscription agreement, the Company shall issue 329,717,000 Domestic Shares to HE at a price of HK\$4.56 per share, and will complete the registration of Domestic Shares at 18 January 2018. Set out below are the details of the issue:

1. Reasons for issue

In order to promote the overall business development, the Company plans to further enhance its production and manufacturing capacity in nuclear and gas turbine industries. The funds raised from the issue of Domestic Shares to HE can be used as financial support for the reform, transformation and sustainable development of the Company, and improve its capital debt structure, allowing the Company to create greater value for shareholders.

2. Type of issue

The issuance has adopted private placement and the issued shares are Domestic Shares.

3. Numbers and total nominal value

The Company issued a total of 329,717,000 Domestic Shares with a total nominal value of RMB329,717,000 at par value of RMB1 each.

4. Issue price

The price of this issue is HK\$4.56 (equivalent to approximately RMB3.85 per share), representing 10 percent premium over the average stock price during 20 trading days preceding the date of the Board meeting.

5. The net price of each share certificate

The net price of each share certificate from the issuance is RMB3.84 after deduction of the cost of this issue.

REPORT OF THE DIRECTORS (CONTINUED)

6. Description of subscriber

The Subscriber is the controlling shareholder of the Company, and is the pioneer in establishing the largest research and manufacturing base for power-generating equipment, marine engines, power-driven equipment and export base for complete set of equipment in the PRC.

7. Market price of the securities on the date of issue

On the date of the completion of issue, the closing price of H shares of the Company is HK\$3.36 per share.

8. Use of proceeds

The net proceeds from the issue of Domestic Shares will be applied for the following purpose:

- (1) to invest in a joint venture project on gas turbine and a nuclear power technology upgrading project; and
- (2) for general working capital of the Company.

REPORT OF THE DIRECTORS (CONTINUED)

DETAILS OF SHARE CAPITAL

Shareholding Structure

As of 31 December 2017, the total share capital of the Company comprised 1,376,806,000 shares, of which 701,235,000 Domestic Shares (state-owned corporate shares) were held by the HE (representing 50.93% of the entire share capital) and 675,571,000 H shares were held by overseas holders of H shares (representing 49.07% of the entire share capital).

As at the date of this annual report, the total share capital of the Company comprised 1,706,523,000 shares, of which 1,030,952,000 Domestic Shares (state-owned legal person shares) were held by the HE (representing 60.41% of the entire share capital) and 675,571,000 H shares were held by overseas holders of H shares (representing 39.59% of the entire share capital).

Equity Interests of Substantial Shareholders

As of 31 December 2017 and up to the date of this annual report, the shareholders having an interest and short positions in 5% or more of the issued share capital of the Company of the relevant classes as recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the "SFO") were as follows:

Long positions in the shares of the Company:

Date	Name of shareholders	Class of shares	Number of shares	Capacity	Percentage of the relevant of share capital	Percentage of entire share capital
As at 31 December 2017	Harbin Electric Corporation Co., Ltd.	State-owned legal person shares	701,235,000	Beneficial Owner	100%	50.93%
As at the date of this annual report	Harbin Electric Corporation Co., Ltd.	State-owned legal person shares	1,030,952,000	Beneficial Owner	100%	60.41%

Save as disclosed above, the register required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as of 31 December 2017.

REPORT OF THE DIRECTORS (CONTINUED)

Holding Range of Shareholders

The Company has sufficient public float. As of 31 December 2017, the top 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 CO., LTD.	701,235,000	50.93%	State-owned legal person shares
2.	HKSCC NOMINEES LIMITED	627,744,598	45.59%	H shares
3.	TANG KEUNG LAM	28,000,000	2.03%	H shares
4.	TANG'S INVESTMENTS LIMITED	17,000,000	1.23%	H shares
5.	YIP CHOK CHIU	360,000	0.03%	H shares
6.	LU NIM KWOK ALBERT U/D	250,000	0.02%	H shares
7.	CHEUNG YUM TIN	200,000	0.01%	H shares
8.	HO YUN HUNG	200,000	0.01%	H shares
9.	NG KAM WAN	110,000	0.01%	H shares
10.	HO CHI KUN	88,000	0.01%	H shares

REPORT OF THE DIRECTORS (CONTINUED)

Analysis of Shareholding of Holders of H Shares

Based on the register of members as at 31 December 2017, the shareholding of holders of H shares as follows:

Range	Number of Shareholders	Number of Shares Held	Percentage to Issued H Shares
1–1,000	4	402	0.00%
1,001–5,000	48	134,000	0.02%
5,001–10,000	43	344,000	0.05%
10,001–100,000	40	1,228,000	0.18%
100,001 and above	8	673,864,598	99.75%
Rounding (to whole numbers)			0
Total	143	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 2017, the Company has complied with the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange. Details of which are set out in the section headed "Corporate Governance Report" in the annual report.

REPORT OF THE DIRECTORS (CONTINUED)

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements, continuing connected transactions, internal control and risk management of the Group for the year ended 31 December 2017, and discussed with the Board the financial reporting procedures as well as the internal control system of the Group.

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 2017 has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP, which was appointed at the 2016 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 2017 annual general meeting of the Company.

By order of the Board
Harbin Electric Company Limited
Ai Li-song
Company Secretary

Harbin, the PRC
23 March 2018

REPORT OF THE BOARD OF SUPERVISORS

To all shareholders:

For the year ended 31 December 2017, all members of the Board of Supervisors (“the Board of Supervisors”) of Harbin Electric Company Limited (“the Company”) duly performed their functions with taking the interests of the Company and all shareholders into account in accordance with the relevant regulations of the Company Law of the People’s Republic of China, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Articles of Association of the Company. The Board of Supervisors has carried out an all-round supervision on significant decision matters including operation management, financial conditions and dividend distribution of the Company. In addition, the Board of Supervisors actively participated in significant events of the Company, such as the production and operation of the Company, which promoted the Company’s work in a smooth manner.

During the period, the Board of Supervisors convened three meetings and attended five Board meetings in person.

Attendance of Supervisors at meetings in 2017

Name of Supervisors	Number of attendance required in meetings of the Board of Supervisors	Attendances in person	Attendance rate	Number of attendance required in the Board meetings	Attendances in person	Attendance rate
Mr. Feng Yong-qiang	3	3	100%	5	5	100%
Mr. Chen Guang	3	3	100%	5	5	100%
Mr. Zhang Wen-ming	3	3	100%	5	5	100%
Mr. Zhang Jun-quan	3	3	100%	5	5	100%
Mr. Zhu Peng-tao	2	2	100%	3	3	100%
Mr. Xu Er-ming	1	1	100%	2	2	100%

For all related works of the Company in 2017, the Board of Supervisors gave the following independent opinions:

1. During the period, 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, which laid a solid foundation for the smooth and sound development of the Company.

REPORT OF THE BOARD OF SUPERVISORS (CONTINUED)

2. The Board of Supervisors considered that the Board of Directors and Senior Management of the Company have duly and actively performed their duties and protected the interests of the shareholders. The Board and all Directors earnestly carried out their rights and obligations under the Company Law of the People's Republic of China, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Articles of Association of the Company, made decisions on significant issues such as production and operation of the Company in accordance with laws and regulations. The Senior Management duly implemented resolutions passed at the Board meetings, advanced each work on all fronts and ensured smooth going concern of the Company. During the period, none of the members of the Board and Senior Management was found to breach of the nations' laws and rules and the Articles of the Association of the Company or act against the interests of the Company, the shareholders and employees.
3. The Board of Supervisors has reviewed the Company's financial system and conditions and considered 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 annual financial report and the dividend payment scheme to be proposed by the Board of Directors for approval at the Annual General Meeting has objectively and truly 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 made in the year have complied with the provisions of the laws and regulations and the Articles of Association of the Company.
4. The Board of Supervisors has reviewed the Report of the Directors and considers that the report truly and objectively reflected the actual conditions of each related work of the Company during the period.

The Board of Supervisors sincerely appreciates the trust and support from all colleagues and the shareholders of the Company, and will continue to explore new supervisory approaches and methods, further consolidate resources for supervision so as to enhance our management, assisting and ensuring the realization of the Company's targets for all works.

By order of the Board of Supervisors

Feng Yong-qiang

Chairman

Harbin, the PRC

23 March 2018

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 maintaining 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.

In 2017, 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 Mr. Liu Deng-qing has resigned from the role of the independent non-executive directors of the Company on 29 December 2017 due to his other business commitments. The Company was identifying a new independent non-executive director, therefore, as of 31 December 2017, the board of directors of the Company has a shortage of one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise, and the numbers of independent non-executive directors were not the majority in the nomination committee of the Board. The Company currently has an addition of independent non-executive director with appropriate accounting expertise: on 21 March 2018, the Company appointed Mr. Tian Min as independent non-executive director, chairman of the Audit Committee and a member of the Nomination Committee under the Board in accordance with the authorization from the annual general meeting.

The Board of the Company is responsible for the corporate governance functions. In 2017, 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 2017.

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, details are set out in the Articles of Association.

COMPOSITION OF BOARD OF DIRECTORS

During 2017, the Board of Directors of the Company has 9 directors, of which 5 are independent non-executive directors. Members of the Board are:

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

Independent non-executive directors: Yu Bo, Zhu Hong-jie, Liu Deng-qing, Yu Wen-xing, Hu Jian-min

CORPORATE GOVERNANCE REPORT (CONTINUED)

During the period, in accordance with national provisions on cadre management, Mr. Yu Bo resigned as an independent non-executive director of the Company on 20 March 2017; at the same time, the Board of Directors appointed Mr. Zhu Hong-jie and Mr. Hu Jian-min as independent non-executive directors in accordance with the authorization from the general meeting. On 29 December 2017, Mr. Liu Deng-qing resigned from the role of the independent non-executive Directors of the Company due to his other business commitments.

As of 31 December 2017, 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: Zhu Hong-jie,Yu Wen-xing,Hu Jian-min

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

Since Mr. Liu Deng-qing resigned from the role of the independent non-executive directors of the Company on 29 December 2017 due to his other business commitments, and the Company was identifying a new independent non-executive director, as of 31 December 2017, the Board of Directors of the Company has a shortage of one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise, and the numbers of independent non-executive directors were not the majority in the nomination committee of the Board. The Company currently has an addition of independent non-executive director with appropriate accounting expertise: on 21 March 2018, the Company appointed Mr. Tian Min as independent non-executive director, chairman of Audit Committee and a member of Nomination Committee of the Board in accordance with the authorization from the annual general meeting.

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

Independent non-executive directors

During 2017, the Board of Directors of the Company was comprised of 5 independent non-executive directors, namely Mr. Yu Bo, Mr. Zhu Hong-jie, Mr. Liu Deng-qing, Mr. Yu Wen-xing, Mr. Hu Jian-min.

During the period, on 20 March 2017, Mr. Yu Bo resigned as an independent non-executive director of the Company; at the same time, Mr. Zhu Hong-jie and Mr. Hu Jian-min were appointed as independent non-executive directors. On 29 December 2017, Mr. Liu Deng-qing resigned from the role of the independent non-executive directors of the Company.

On 21 March 2018, Mr. Tian Min was appointed as independent non executive director of the Company.

During the reporting period, all the Independent non-executive Directors attended the meetings of the Board of Directors with a prudent and responsible attitude during the term of directorship. 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Meetings of the Board of Directors

During 2017, 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, 5 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 2017

Name of Director	Number of Attendance Required	Attendances in Person	Number of Attendance by Alternate Director	Attendance rate
Mr. Si Ze-fu	12	12	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	2	2	0	100%
Mr. Zhu Hong-jie	10	9	1	90%
Mr. Liu Deng-qing	12	12	0	100%
Mr. Yu Wen-xing	12	12	0	100%
Mr. Hu Jian-min	10	10	0	100%

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 by 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.

In 2017, the Company held the annual general meeting, extraordinary general meeting and shareholders class meeting once respectively, and all the directors attended the general meeting.

Attendance of Directors at general meeting in 2017

Name of Director	Number of Attendance Required	Attendances in Person	Attendance rate
Mr. Si Ze-fu	3	3	100%
Mr. Wu Wei-zhang	3	3	100%
Mr. Zhang Ying-jian	3	3	100%
Mr. Song Shi-qi	3	3	100%
Mr. Yu Bo	0	0	0
Mr. Zhu Hong-jie	3	3	100%
Mr. Liu Deng-qing	3	3	100%
Mr. Yu Wen-xing	3	3	100%
Mr. Hu Jian-min	3	3	100%

CORPORATE GOVERNANCE REPORT (CONTINUED)

Term of Directors

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

Duties and Performance of the Board and Management

The Board of Directors, under authorization 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 2017, 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 2017, 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.

Training of the Directors

Ongoing development and training helps Directors keep abreast of current trends and issues facing the Company, while enabling them to update and refresh their skills and knowledge necessary for the performance of their duties. During 2017, the Company actively organized the training and provided sustainable development opportunities for the Directors, and reported the daily business briefing and market information of the Company, which greatly strengthened the knowledge and skills necessary for all the Directors.

In 2017, the independent non-executive directors of the Company attended the training courses such as special training course for Directors organized by the SASAC-Tsinghua University, and listened to the specialized seminars such as supply-side structural reform of central enterprises and mixed-ownership reform; the executive directors of the Company attended the training courses such as "China Manufacturing 2025 Workshop". In 2017, the directors of the Company received an aggregate of above 800 hours of training courses. These courses further enhanced the directors' skills and knowledge, enabling them to make greater contributions to the development of the Company.

CHAIRMAN AND PRESIDENT

During 2017, the Chairman of the Company was Mr. Si Ze-fu, and the President of the Company was 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.

During 2017, the meetings convened by the special committees under the Board of the Company included 2 Nomination Committee meetings; 1 Remuneration Committee meeting; 3 Audit Committee meetings; and 3 Strategy Development 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 2017

Name of Director	Audit Committee			Nomination Committee			Remuneration Committee			Strategy Development Committee		
	Number of Attendance Required	Attendances in Person	Attendance Rate	Number of Attendance Required	Attendances in Person	Attendance Rate	Number of Attendance Required	Attendances in Person	Attendance Rate	Number of Attendance Required	Attendances in Person	Attendance Rate
Mr. Si Ze-fu				2	2	100%						
Mr. Wu Wei-zhang										3	3	100%
Mr. Zhang Ying-jian										3	3	100%
Mr. Song Shi-qi							1	1	100%			
Mr. Yu Bo	1	1	100%	1	1	100%						
Mr. Zhu Hong-jie	2	2	100%				1	1	100%			
Mr. Liu Deng-qing	3	3	100%	2	2	100%	1	1	100%			
Mr. Yu Wen-xing	3	3	100%				1	1	100%	3	3	100%
Mr. Hu Jian-min				1	1	100%				2	2	100%

Audit Committee

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.

The Audit Committee under the Board of the Company totally comprises of independent non-executive directors: prior to 20 March 2017, the members of the Audit Committee under the Board of the Company were Mr. Liu Deng-qing, Mr. Yu Bo and Mr. Yu Wen-xing. The independent non-executive director Mr. Liu Deng-qing was the chairman of the committee; on 20 March 2017, Mr. Yu Bo resigned from the role of independent non-executive directors and member of the Audit Committee under the Board of the Company, at the same time, Mr. Zhu Hong-jie was appointed as the independent non-executive directors and member of the Audit Committee under the Board of the Company. The members of the Audit Committee under the Board of the Company were Mr. Liu Deng-qing, Mr. Zhu Hong-jie and Mr. Yu Wen-xing. The independent non-executive director Mr. Liu Deng-qing was the chairman of the committee; on 29 December 2017, Mr. Liu Deng-qing resigned from the role of independent non-executive directors and chairman of the Audit Committee under the Board of the Company. As of 31 December 2017, the members of the Audit Committee under the Board of the Company were Mr. Zhu Hong-jie and Mr. Yu Wen-xing, and chairman of the Committee was vacant. On 21 March 2018, Mr. Tian Min was appointed as chairman of the Audit Committee. As at the date of this annual report, the members of the Audit Committee under the Board of the Company were Mr. Tian Min, Mr. Zhu Hong-jie and Mr. Yu Wen-xing, and independent non-executive, Mr. Tian Min was the chairman of the Committee.

CORPORATE GOVERNANCE REPORT (CONTINUED)

In 2017, the Audit Committee held a total of 3 meetings and accomplished the following key tasks:

No.	Summary of Work
1.	Agreeing the annual budget and submitting it to the Board of Directors
2.	Agreeing the proposal of credit line application in cooperative banks by the Company and submitting it to the Board of Directors
3.	Agreeing the proposal of renewal loan by subsidiaries and submitting it to the Board of Directors
4.	Agreeing the proposal of financial writing-off of assets impairment provision made by subsidiaries and submitting it to the Board of Directors
5.	Agreeing the contents in Annual Report of 2016 and submitting them to the Board of Directors
6.	Agreeing the Company's self-assessment report of 2016 on internal control and risk management and submitting it to the Board of Directors
7.	Agreeing the Company's contents of Interim Report of 2017 and submitting them to the Board of Directors

The Audit Committee together with external auditor BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) have reviewed the financial statements included in the 2017 Annual Report, confirmed that these financial statements were prepared in accordance with China Accounting Standards and fairly presented the annual financial positions and results of the Group for the year ended 31 December 2017.

The Audit Committee has reviewed the self-assessment report of 2017 on internal control and risk management and confirmed that: as of 31 December 2017, the risk management and internal control system has operated effectively; the Company has adopted effective monitoring mechanism to rectify the issues in time; and the Company has properly complied with the stipulations on the risk management and internal control system in the Corporate Governance Code.

Nomination Committee

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.

Before 20 March 2017, the members of the Nomination Committee under the Board of the Company were Mr. Si Ze-fu, Mr. Yu Bo and Mr. Liu Deng-qing and Chairman of the Company, Mr. Si Ze-fu was the chairman of the committee. On 20 March 2017, Mr. Yu Bo resigned as an independent non-executive director as well as a member of the Nomination Committee under the Board of the Company, while Mr. Hu Jian-min was appointed as independent non-executive director and member of the Nomination Committee under the Board of the Company; and the members of the Nomination Committee under the Board of the Company included Mr. Si Ze-fu, Mr. Liu Deng-qing and Mr. Hu Jian-min, and Chairman of the Company, Mr. Si Ze-fu was the chairman of the committee. On 29 December 2017, Mr. Liu Deng-qing resigned from the role of independent non-executive directors and member of the Nomination Committee under the Board of the Company. As of 31 December 2017, the members of the Nomination Committee under the Board of the Company included Mr. Si Ze-fu and Mr. Hu Jian-min, while half of the members of the committee were independent non-executive directors, Chairman of the Company, Mr. Si Ze-fu being the chairman of the committee. On 21 March 2018, Mr. Tian Min was appointed as member of the Nomination Committee. As at the date of this annual report, the members of the Nomination Committee under the Board of the Company included Mr. Si Ze-fu, Mr. Hu Jian-min and Mr. Tian Min; and two thirds of the members of the Nomination Committee were independent non-executive directors, Chairman of the Company, Mr. Si Ze-fu being the chairman of the Committee.

CORPORATE GOVERNANCE REPORT (CONTINUED)

In 2017, the Nomination Committee held a total of 2 meetings and accomplished the following key tasks:

No.	Summary of Work
1	Agreeing the nomination of independent non-executive directors and submitting it to the Board of Directors
2	Agreeing the nomination of the members of the 8th session of the Board of Directors and submitting it to the Board of Directors

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.

Remuneration Committee

The main responsibilities of the Remuneration Committee under the Board of the Company are: to research into the remuneration system and policies of the Company and to make recommendations on the remuneration of the Directors and Senior Management to the Board.

Before 20 March 2017, the members of the Remuneration Committee under the Board of the Company were Mr. Yu Wen-xing, Mr. Yu Bo, Mr. Liu Deng-qing and Mr. Song Shi-qi and independent non-executive director Mr. Yu Wen-xing was the chairman of the committee. On 20 March 2017, Mr. Yu Bo resigned from the role of independent non-executive directors and member of the Remuneration Committee under the Board of the Company while Mr. Zhu Hong-jie was appointed as independent non-executive director and a member of the Remuneration Committee under the Board of the Company; and the members of the Remuneration Committee under the Board of the Company included Mr. Yu Wen-xing, Mr. Zhu Hong-jie, Mr. Liu Deng-qing and Mr. Song Shi-qi, and independent non-executive director Mr. Yu Wen-xing was appointed as chairman of the committee. On 26 May 2017, the Company elected a new session of the Board of Directors and made adjustment to the members of the Remuneration Committee. The members of the Remuneration Committee were Mr. Yu Wen-xing, Mr. Zhu Hong-jie and Mr. Song Shi-qi and independent non-executive director Mr. Yu Wen-xing was the chairman of the committee. As of 31 December 2017, the members of the Remuneration Committee were Mr. Yu Wen-xing, Mr. Zhu Hong-jie and Mr. Song Shi-qi, and two thirds of the members of the committee were independent non-executive directors and independent non-executive director Mr. Yu Wen-xing was the chairman of the Remuneration Committee.

In 2017, the Remuneration Committee held one meeting and considered the remuneration of the members of the 8th session of the Board of Directors.

No.	Summary of Work
1	Agreeing the remuneration of the members of the 8th session of the Board of Directors and submitting it to the Board of Directors

CORPORATE GOVERNANCE REPORT (CONTINUED)

Strategy Development 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, governance policies, 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.

Prior to 20 March 2017, the members of the Strategy Development Committee under the Board of the Company were Mr. Wu Wei-zhang, Mr. Zhang Ying-jian and Mr. Yu Wen-xing, and executive director Mr. Wu Wei-zhang was the chairman of the committee. On 20 March 2017, Mr. Hu Jian-min was appointed as independent non-executive director and a member of the Strategy Development Committee under the Board of the Company. The members of the Strategy Development Committee under the Board of the Company were Mr. Wu Wei-zhang, Mr. Zhang Ying-jian, Mr. Yu Wen-xing and Mr. Hu Jian-min and executive director Mr. Wu Wei-zhang was the chairman of the committee. As of 31 December 2017, the members of the Strategy Development Committee under the Board of the Company were Mr. Wu Wei-zhang, Mr. Zhang Ying-jian, Mr. Yu Wen-xing and Mr. Hu Jian-min and executive director Mr. Wu Wei-zhang was the chairman of the committee.

In 2017, the Strategy Development Committee held a total of 3 meetings and accomplished the following key tasks:

No.	Summary of Work
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1	Agreeing the related major investment issues and submitting them to the Board of Directors
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The Strategy Development Committee under the Board of has reviewed this report and confirmed that: the Company strived to maintain corporate governance of high standard and believed that quality governance is a key to long-term success and sustainable development of the Company's business. In 2017, the Company fully complied with the stipulations in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange and, when appropriate, adopted the recommended best practices as specified therein, save that Mr. Liu Deng-qing, an independent non-executive director of the Company resigned from the position on 29 December 2017 due to other business commitments and that the Company was in the process of identifying a new independent non-executive director candidate. As a result, as of 31 December 2017, the Board of Directors of the Company had a shortage of an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise, and independent non-executive directors were not the majority among the members of the Nomination Committee under the Board of Directors. The Company currently has an addition of independent non-executive director with appropriate accounting expertise: on 21 March 2018, the Company appointed Mr. Tian Min as independent non-executive director, chairman of audit committee and a member of nomination committee of the Board in accordance with the authorization from the annual general meeting.

AUDITORS AND THEIR REMUNERATION

During 2017, the remuneration of BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership), the Company's auditor, amounted to RMB2.5 million. The Company did not pay the remuneration in terms of services such as the review of the interim financial statements and connected transaction letters provided by BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership).

BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) and the Board of Directors have reviewed the financial statements included in the Annual Report of 2017, confirmed that the financial statements were prepared in accordance with China Accounting Standards and fairly presented the annual financial positions and results of the Group for the year ended 31 December 2017.

The Board of Directors has recommended to the General Meeting to re-appoint BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) as the auditors for the Company's 2018 financial statements.

CORPORATE GOVERNANCE REPORT (CONTINUED)

COMPANY SECRETARY

In 2017, Mr. Ai Li-song was 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 2017, 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 RIGHTS

Pursuant to the Articles of Association, upon the requisition in writing of holders of 10% or more shares issued by the Company with voting rights, the Board shall convene an interim 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 new proposals to the Company in writing. The Company shall include in the agenda of that meeting those matters contained in the proposal that fall within scope of the responsibility of the general meeting.

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

When shareholders request to convene an interim general meeting or class meeting, the following procedures shall be followed:

- (I) Two or more shareholders who hold more than 10% (including 10%) of the shares in total with voting rights at the meeting to be held may sign one or more written request in the same format, and submit to the Board of Directors to convene interim general meeting or class meeting of shareholders and clarify the issue of the meeting. The Board of Directors shall convene an interim general meeting or a class meeting in time after receiving the above written request.
- (II) If the Board of Directors does not dispatch a notice for convening the meeting within 30 days after receiving the above written request, shareholders requesting may convene the meeting on their own within 4 months after receipt of the request by Board of Directors.

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 Co., Ltd., a state-owned company registered in the People's Republic of China.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 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 2017, 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 1 December 2017, the Company convened an extraordinary general meeting to consider and approve the proposed amendments to the Articles of Association. The amendments are as follows:

1. Renewal of Unified Social Credit Code

Before amendment:

Article 3 The Company was established through sponsorship on 29 September 1994 pursuant to the approval document Ti Gai Sheng No. [1994]109 issued by the State Commission for Restructuring the Economic System, and was registered with and obtained its business license from Harbin Administration for Industry and Commerce on 6 October 1994. The business license number of the Company is 230100100004252.

After amendment:

Article 3 The Company was established through sponsorship on 29 September 1994 pursuant to the approval document Ti Gai Sheng No. [1994]109 issued by the State Commission for Restructuring the Economic System, and was registered with and obtained its business license from Harbin Administration for Industry and Commerce on 6 October 1994. The business license number of the Company is 91230100127575573H.

CORPORATE GOVERNANCE REPORT (CONTINUED)

2. Additional requirements for building the Communist Party of China

- (1) Addition in "Chapter 1 General":

Article 7 In accordance with the relevant provisions under the Constitution of the Communist Party of China, the Company established the Communist Party Committee of Harbin Electric Company Limited (the "Party Committee"). The Party Committee shall perform the core leading and political functions, provide the directions, manage the situation and ensure the implementation. Meanwhile, the Company shall set up a working agency for the Party, allocate sufficient personnel to handle Party affairs and guarantee working funds for the Party Committee.

The numbers for the existing Article 7 and the items thereafter should be adjusted accordingly.

- (2) Addition in "Chapter 12 the Board":

Article 87 Prior to making decisions on material issues of the Company, the Board shall first hear the opinions of the Party Committee.

The numbers for the existing Article 86 and the items thereafter should be adjusted accordingly.

- (3) Addition of a Chapter "Party Committee":

Chapter 14 Party Committee

Article 111 The Company shall set up the Party Committee, which shall consist of 1 secretary, 1 deputy secretary in charge of party construction works and several members of the Party Committee (standing committee). The Chairman and the party secretary shall be held by the same person in principle. At the same time, the Company shall establish the Commission for Discipline Inspection of the Communist Party of Harbin Electric Company Limited (the "Discipline Committee").

Article 112 The Company shall adhere to and improve the leadership mechanism for cross appointment. Eligible Party members are allowed to serve as members of the Board, the Board of Supervisors and management through legal procedures. The eligible Party Committee members in the Board, board of supervisors and management are allowed to join the Party Committee in accordance with relevant provisions and procedures.

Article 113 The Party Committee shall discharge its duties in accordance with the provisions under the Constitution of the Communist Party of China.

- (i) To guarantee and supervise the implementation of policies and guidelines of the Party and the state in the Company, it's imperative to implement material strategic decisions of the Party Central Committee and the State Council and plans made for the relevant material work of the superior Party organization.
- (ii) It's crucial to insist on a combination of the principle of management of cadres by the Party, the selection of operation managers by the Board according to laws and the execution of the right of employment by the operation managers. The Party Committee shall consider and propose opinions and suggestions on the candidates nominated by the Board or president, or nominate candidates to the Board or president, and, together with the Board, conduct investigation on the candidates to be appointed and collective research to raise opinions and suggestions.

CORPORATE GOVERNANCE REPORT (CONTINUED)

- (iii) The Party Committee shall research into and discuss reform, development and stability, material operation and management issues and other material issues involving staff's immediate interests of the Company, and propose opinions and suggestions thereon.
- (iv) The Party Committee shall shoulder the main responsibility for governing the Party in a strict and all-round manner, lead the Company in terms of ideology and politics, united front, spiritual civilization construction, corporate cultural construction and the work of labor union, the Communist Youth League and other groups, and lead in building Party conduct and an honest and clean government and support the Discipline Committee in its practical performance of oversight responsibility.
- (v) Other responsibilities that shall be performed by the Party Committee.

The numbers in "Chapter 14 President" and chapters and items thereafter in the existing Articles shall be adjusted accordingly.

3. Renewal of registered capital and shareholding structure

Before amendment:

Article 15 Upon the approval of the companies supervisory department authorized by the State Council, the total number of ordinary shares which has been issued by the Company is 1,376,806,000 shares, with nominal value of RMB1.00 per share, of which:

- (1) when the Company was founded, 720,000,000 domestic shares were issued to the promoter; during the additional issuance in December 2005, after reducing the holding of 8,530,000 domestic shares, the promoter held the remaining 711,470,000 domestic shares, accounting for 55.83% of the total shares of the Company; during the additional issuance in March 2007, after reducing the holding of 10,235,000 domestic shares, the promoter held the remaining 701,235,000, accounting for 50.93% of the total shares of the Company.
- (2) after the Company was founded, it issued 469,151,000 overseas listed foreign shares. In December 2005, it increased 93,830,000 overseas listed foreign shares to 562,981,000, accounting for 44.17% of the total shares of the Company. In March 2007, the Company increased 102,355,000 overseas listed foreign shares to 675,571,000 shares, accounting for 49.07% of the total shares of the Company.

As far as the share capital structure is concerned, the Company owns 1,376,806,000 ordinary shares, of which 701,235,000 domestic shares are held by the promoter and 675,571,000 overseas listed foreign shares by oversea listed foreign shareholders.

Article 16 The registered capital of the Company is RMB1,376,806,000. The Company may, based on its business development requirement, increase its capital in accordance with the relevant provisions of these Articles. The following methods may be adopted for an increase in capital:

- (i) offering new shares to unspecified investors;
- (ii) placing new shares to existing shareholders;
- (iii) issuing new shares to existing shareholders; or
- (iv) any other methods permitted by PRC laws and administrative regulations.

CORPORATE GOVERNANCE REPORT (CONTINUED)

After amendment:

Article 16 Upon the approval of the companies supervisory department authorized by the State Council, the total number of ordinary shares which has been issued by the Company is 1,706,523,000 shares, with nominal value of RMB1.00 per share, of which:

- (1) when the Company was founded, 720,000,000 domestic shares were issued to the promoter; in the additional issuance in December 2005, after reducing the holding of 8,530,000 domestic shares, the promoter held the remaining 711,470,000 shares, accounting for 55.83% of the total shares of the Company; during the additional issuance in March 2007, after reducing the holding of 10,235,000 domestic shares, the promoter held the remaining 701,235,000 domestic shares, accounting for 50.93% of the total shares of the Company; and in the additional issuance in 2017, after increasing the holding of 329,717,000 domestic shares, the quantity held by the promoter was added to 1,030,952,000 domestic shares, accounting for 60.41% of the total shares of the Company.
- (2) after the Company was founded, it issued 469,151,000 overseas listed foreign shares. In December 2005, it increased 93,830,000 overseas listed foreign shares to 562,981,000 shares, accounting for 44.17% of the total shares of the company; and in March 2007, the Company increased 102,355,000 overseas listed foreign shares to 675,571,000 shares, accounting for 49.07% of the total shares of the Company.

As far as the share capital structure is concerned, the Company holds 1,706,523,000 ordinary shares, of which 1,030,952,000 domestic shares is held by the promoter and 675,571,000 overseas listed foreign shares are held by oversea listed foreign shareholders.

Article 17 The registered capital of the Company is RMB1,706,523,000. The Company may, based on its business development requirement, increase its capital in accordance with the relevant provisions of these Articles. The following methods may be adopted for an increase in capital:

- (i) offering new shares to unspecified investors;
- (ii) placing new shares to existing shareholders;
- (iii) issuing new shares to existing shareholders; or
- (iv) any other method permitted by PRC laws and administrative regulations.

CORPORATE GOVERNANCE REPORT (CONTINUED)

RISK MANAGEMENT AND INTERNAL CONTROL

The Audit Committee of the Board 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.

In 2017, 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.

AUDITORS' REPORT

Xin Kuai Shi Bao Zi [2018] No. ZE10046

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 parent company's balance sheets as at 31 December, 2017, the consolidated and parent company's income statements as at 31 December, 2017, the consolidated and parent company's cash flow statements, and the consolidated and parent company's statements of changes in equity for the year then ended, as well as notes to the financial statements.

We believe that the attached financial statements are prepared in all material respects which in accordance with the Accounting Standards for Business Enterprises, and fairly reflect the consolidated and parent company's financial position of Company as at 31 December 2017, 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.

AUDITORS' REPORT (CONTINUED)

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.

Description of the matter	Audit reaction
I. Income of Construction Contract	
As stated in "Note III (26) Income" and "Note V (48) 2 Construction Contracts" in the notes to the financial statements of Harbin Electric Power Co., Ltd., The recognition of construction contract income is concerned due to related accounting involved in significant accounting estimates and judgment. HEC takes percentage-of-completion method to recognize construction contract income and determine contractual completion progress by ratio of actual construction costs in estimated total contractual costs. Calculating total estimated contractual costs is involved in significant accounting estimate and judgment, including existing or possible unforeseen costs before the completion of construction. We regard the income of construction contract as a key audit matter.	<p>For income of construction contract,</p> <p>(I) We realized and assessed design of internal control related to the construction contract revenue and cost accounting, and tested on efficiency of key control execution as well, including internal control on actual construction costs and total estimated contractual costs</p> <p>(II) We took sampling method, compared and analyzed total costs incurred of completed projects to contractual costs estimated by management, and evaluated experience and ability of management who made the accounting estimation.</p> <p>(III) We obtained cost calculations for construction contracts prepared by management, matched total amounts to subsidiary accounts of income and costs, and checked calculation accuracy.</p> <p>(IV) For the construction costs incurred, we executed following procedures by sampling:</p> <p>a. checked contracts of actual construction costs, invoices, equipment receipts, progress confirmation, and other supportive documents.</p> <p>b: For the actual construction costs confirmed before and after balance sheet date, the costs were checked through equipment receipt, progress confirmation and other supportive documents to evaluate that if actual costs were confirmed in the proper accounting period.</p>

AUDITORS' REPORT (CONTINUED)

Description of the matter	Audit reaction
	(V) We executed following procedures to estimate total costs of projects by sampling methods: <ul style="list-style-type: none">a: Checked the component of estimated total costs to purchase contracts and other supportive documents in order to identify whether there were missing items in estimated total costs.b: Discussed and went through relative supportive documents with engineers to assess rationality of estimated costs.
II. Bad debt provision for accounts receivable	
<p>As "III (11) Bad Debt Reserves for Accounts Receivable" and "V (3)" in Notes to the financial statements of Harbin Electric Power Co., Ltd state, As of December 31, 2017, the balance of accounts receivable of the Company was RMB16,222,531,095.81 and the balance of provision for bad debts was RMB5,633,944,807.67. The management uses judgments and subjective assumptions to estimate the provision for bad debts of customer account receivables.</p> <p>Due to the large amount of receivables of Harbin Electric Corporation and the uncertainty of the relevant estimates, we regard provision for bad debts of accounts receivable as a key audit matter.</p>	<p>When auditing the provision for bad debts of accounts receivable, the audit procedures we implemented include:</p> <ul style="list-style-type: none">(I) Understand and test the design and implementation of internal control systems and financial accounting systems related to sales and repayments of your company;(II) Evaluate your company's ageing method and individual identification combined with provision for bad debts;(III) Compare with the bad debt policy of listed companies in the same industry and combine the political and economic risks of the country in which the customers are located to analyze the rationality of the estimates and assumptions adopted by the management;(IV) Combine the amount of last-period bad debts, the post-recovery situation, and estimated future cash flow to analyze the prudence of bad debt provision.

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.

AUDITORS' REPORT (CONTINUED)

V. Management and governance 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 governance is responsible for overseeing the financial reporting process of the Company.

VI. the CPA's audit responsibility of the financial statements

Our objective is to obtain a reasonable assurance of the financial statements 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) Understand the internal control related to the audit to design the appropriate audit procedures.
- (3) 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 HEC to continue to operate.

AUDITORS' REPORT (CONTINUED)

- (5) 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) Obtain sufficient and appropriate audit evidence of the financial information of the entity or business activity of the Company 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.

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: Chen Yongbo

Shanghai • China
23 March 2018

Certified Public Accountant: Chen Qingsong

CONSOLIDATION BALANCE SHEET

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Closing balance	Opening balance
Current assets:			
Cash and bank	V.(1)	16,165,238,281.47	18,089,913,079.54
△Settlement reserve			
△Due from banks and other financial institutions			
Financial assets at fair value through profit and loss			
Derivative assets			
Notes receivable	V.(2)	4,362,451,678.86	3,806,467,011.80
Accounts receivable	V.(3)	10,588,586,288.14	10,060,235,974.92
Advances to suppliers	V.(4)	5,389,851,256.88	6,037,338,085.19
△Premium receivable			
△Reinsurance premium receivable			
△Reserve receivable for reinsurance			
Interest receivable	V.(5)	3,277,397.20	2,295,674.89
Dividends receivable	V.(6)	144,453.39	241,249.61
Other receivables	V.(7)	953,565,790.29	1,058,989,580.38
△Securities purchased under agreements to resell			
Inventories	V.(8)	15,546,042,302.41	16,424,268,723.05
Including: raw materials		3,480,285,176.50	3,146,035,799.07
Merchandise inventories (finished goods)		426,733,313.77	417,571,154.64
Held-for-sale assets			
Current portion of non-current assets			
Other current assets	V.(9)	3,009,630,060.28	2,138,487,236.92
Total current assets		56,018,787,508.92	57,618,236,616.30
Non-current assets:			
△Loans and advances	V.(10)	492,068.11	6,551,087.18
Available-for-sale financial assets	V.(11)	85,895,000.00	90,595,000.00
Held-to-maturity investments			
Long-term receivables	V.(12)	2,831,982.28	4,566,613.71
Long-term equity investments	V.(13)	202,785,739.51	214,352,573.92
Investment property	V.(14)	230,786,722.78	27,972,824.42
Fixed asset-original cost	V.(15)	13,435,772,906.09	12,802,272,968.29
Less: accumulated depreciation		7,426,533,734.02	6,952,523,075.51
Fixed asset-original cost net of depreciation		6,009,239,172.07	5,849,749,892.78
Less: provision for impairment of fixed assets		48,520,955.05	20,074,908.71
Fixed asset-net value		5,960,718,217.02	5,829,674,984.07
Construction in progress	V.(16)	860,049,881.44	835,008,401.64
Construction materials	V.(17)	3,719,461.29	835,204.92
Fixed assets pending for disposal productive			
biological assets	V.(18)	201,003.47	
Oil and gas assets			
Intangible assets	V.(19)	771,625,366.77	650,245,362.23
Development disbursements	V.(20)	239,205,849.67	197,203,075.79
Goodwill			
Long-term deferred expenses	V.(21)	30,412,529.89	40,892,704.71
Deferred tax assets	V.(22)	430,581,741.83	351,373,269.10
Other non-current assets			
Including: physical assets reserve specifically authorized			
Total non-current assets		8,819,305,564.06	8,249,271,101.69
Total assets		64,838,093,072.98	65,867,507,717.99

CONSOLIDATION BALANCE SHEET (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings	V.(23)	3,083,568,542.78	2,089,338,408.88
△ Borrowings from central bank			
△ Deposits and placements from other financial institutions	V.(24)	803,027,749.69	2,674,062,146.65
△ Placement from banks and other financial institutions			
Financial liabilities at fair value through profit and loss			
Derivative liabilities			
Notes payable	V.(25)	5,479,804,293.43	6,093,183,408.50
Accounts payable	V.(26)	14,051,708,904.60	12,234,254,358.75
Advances from customers	V.(27)	19,691,124,928.12	22,703,536,765.04
△ Securities sold under agreement to repurchase			
△ Fees and commissions payable			
Employee benefits payable	V.(28)	319,715,914.16	184,279,812.72
Including: salary payable		91,949,227.59	471,789.44
Welfare benefits payable			
Employee bonus and welfare fund			
#Including: employee bonus and welfare fund			
Taxes and surcharges payable	V.(29)	240,442,949.52	367,490,729.90
Including: taxes payable excluding surcharges		227,313,951.19	345,874,898.24
Interest payable	V.(30)	125,099,549.75	136,755,117.01
Dividends payable	V.(31)	3,569,638.20	6,936,931.73
Other payables	V.(32)	277,646,983.05	307,070,933.98
△ Reinsurance amounts payable			
△ Reserve of insurance contract			
△ Securities brokering			
△ Securities underwriting			
Held-for-sale liabilities			
Current portion of non-current liabilities	V.(33)	2,999,707,500.00	
Other current liabilities	V.(34)	134,893.80	134,893.80
Total current liabilities		47,075,551,847.10	46,797,043,506.96

CONSOLIDATION BALANCE SHEET (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Closing balance	Opening balance
Non-current liabilities:			
Long-term borrowings	V.(35)	200,000,000.00	
Bonds payable	V.(36)		2,997,952,500.00
Long-term payable	V.(37)	1,000,000.00	1,000,000.00
Long-term employee benefits payable	V.(38)	141,039,180.93	80,192,909.50
Specific payable	V.(39)	484,953,994.29	485,919,894.29
Provisions	V.(40)	631,358,782.54	689,345,509.25
Deferred income	V.(41)	154,756,614.71	173,638,642.51
Deferred tax liabilities	V.(22)	7,280,974.79	
Other non-current liabilities			
Including: authorized reserve fund			
Total non-current liabilities		1,620,389,547.26	4,428,049,455.55
Total liabilities		48,695,941,394.36	51,225,092,962.51
Equity:			
Paid-in capital	V.(42)	1,706,523,000.00	1,376,806,000.00
State-owned capital		1,030,952,000.00	701,235,000.00
Including: state-owned legal person's capital		1,030,952,000.00	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		1,706,523,000.00	1,376,806,000.00
Other equity instruments			
Preferred stock			
Perpetual debt			
Capital reserve	V.(43)	3,690,197,230.17	2,764,208,480.41
Less: treasury shares			
Other comprehensive income	V.(44)	18,514,209.22	-6,938,794.70
Including: Currency translation reserve		-691,329.32	3,417,340.36
Specialized reserve	V.(45)	19,377,426.96	15,801,148.88
Surplus reserve	V.(46)	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.(47)	8,649,609,089.09	8,496,686,529.09
Total equity attributable to the shareholders of parent company		14,870,750,901.30	13,433,093,309.54
* Minority interests		1,271,400,777.32	1,209,321,445.94
Total owner's equity		16,142,151,678.62	14,642,414,755.48
Total liabilities and owner's equity		64,838,093,072.98	65,867,507,717.99

Corporate representative:

Chief Accountant:

Accounting Supervisor:

BALANCE SHEET

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Closing balance	Opening balance
Current assets:			
Cash and bank		3,481,580,580.67	1,577,494,784.69
△Settlement reserve			
△Due from banks and other financial institutions			
Financial assets at fair value through profit and loss			
Derivative assets			
Notes receivable		109,863,832.00	76,303,400.00
Accounts receivable	XIV.(1)	991,393,813.38	305,035,781.87
Advances to suppliers		3,166,229,261.29	2,794,109,346.94
△Premium receivable			
△Reinsurance premium receivable			
△Reserve receivable for reinsurance			
Interest receivable			18,434,888.89
Dividends receivable		75,124,995.11	191,737,395.11
Other receivables	XIV.(2)	987,349,656.17	1,571,048,000.79
△Securities purchased under agreements to resell			
Inventories		1,530,848,812.74	1,558,950,856.57
Including: raw materials			
Merchandise inventories (finished goods)			
Held-for-sale assets			
Current portion of non-current assets			
Other current assets		524,584,052.35	230,000,000.00
Total current assets		10,866,975,003.71	8,323,114,454.86
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	XIV.(3)	5,425,552,052.05	5,083,406,978.22
Investment property		6,708,228.65	
Fixed asset-original cost		1,097,598,387.08	1,406,473,872.94
Less: accumulated depreciation		299,418,589.26	332,950,247.42
Fixed asset-original cost net of depreciation			
Less: provision for impairment of fixed assets			
Fixed asset-net value		798,179,797.82	1,073,523,625.52
Construction in progress		3,933,699.89	33,211,152.90
Construction materials			
Fixed assets pending for disposal productive			
biological assets			
Oil and gas assets			
Intangible assets		84,260,507.51	87,620,952.69
Development disbursements		2,611,819.30	991,501.38
Goodwill			
Long-term deferred expenses			
Deferred tax assets			
Other non-current assets			
Including: physical assets reserve specifically authorized			
Total non-current assets		6,333,246,105.22	6,290,754,210.71
Total assets		17,200,221,108.93	14,613,868,665.57

BALANCE SHEET (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Closing balance	Opening balance
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		395,790,309.20	
Accounts payable		1,537,987,785.80	219,749,032.28
Advances from customers		4,115,565,251.44	4,354,055,956.81
△ Securities sold under agreement to repurchase			
△ Fees and commissions payable			
Employee benefits payable		62,564,298.43	7,807,035.33
Including: Salary payable		52,061,674.84	61,674.84
Welfare benefits payable			
# Employee bonus and welfare fund			
Taxes and surcharges payable		-146,164,679.47	-39,311,313.61
Including: taxes payable excluding surcharges		-146,164,679.47	-39,778,615.41
Interest payable		120,866,666.66	120,866,666.66
Dividends payable		92,528.17	90,621.70
Other payables		488,277,218.29	600,266,255.63
△ Reinsurance amounts payable			
△ Reserve of insurance contract			
△ Securities brokering			
△ Securities underwriting			
Held-for-sale liabilities			
Current portion of non-current liabilities		2,999,707,500.00	
Other current liabilities			
Total current liabilities		9,973,416,878.52	5,662,254,254.80
Non-current liabilities:			
Long-term borrowings		200,000,000.00	
Bonds payable			2,997,952,500.00
Long-term payable			
Long-term employee benefits payable			
Specific payable			
Provisions		34,700,000.00	4,535,256.41
Deferred income		42,831,672.22	49,407,372.22
Deferred tax liabilities			
Other non-current liabilities			
Including: authorized reserve fund			
Total non-current liabilities		277,531,672.22	3,051,895,128.63
Total liabilities		10,250,948,550.74	8,714,149,383.43

BALANCE SHEET (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Closing balance	Opening balance
Equity:			
Paid-in capital		1,706,523,000.00	1,376,806,000.00
State-owned capital		1,030,952,000.00	701,235,000.00
Including: state-owned legal person's capital		1,030,952,000.00	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		1,706,523,000.00	1,376,806,000.00
Other equity instruments			
Preferred stock			
Perpetual debt			
Capital reserve		3,628,404,836.53	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		991,042,420.20	1,211,488,600.15
Total owner's equity		6,949,272,558.19	5,899,719,282.14
Total liabilities and owner's equity		17,200,221,108.93	14,613,868,665.57

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION INCOME STATEMENTS

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
1. Revenue		31,980,647,049.20	31,293,016,034.46
Including: operating revenue	V.(48)	31,540,323,856.38	30,929,420,698.72
△Interest income	V.(49)	440,314,100.89	363,414,918.10
△Premium earned			
△Fees and commissions income	V.(50)	9,091.93	180,417.64
2. Cost of sales		31,704,374,594.40	30,306,121,185.92
Including: operating cost	V.(48)	27,267,954,227.34	26,626,875,253.92
△Interest expenses	V.(49)	24,780,211.04	6,358,429.84
△Fees and commissions expenses	V.(50)	15,292.72	19,292.43
△Cash surrender amount			
△Net expenses of claim settlement			
△Net provisions for insurance contract reserves			
△Policy dividend expenses			
△Reinsurance expenses			
Taxes and surcharges	V.(51)	178,624,849.16	195,059,540.33
Selling expenses	V.(52)	639,375,988.88	638,233,891.97
Administrative expenses	V.(53)	2,253,706,207.85	2,136,693,904.16
Including: research and development expenses		291,502,274.61	295,945,136.66
Party building work funds.			
Financial expenses	V.(54)	322,789,200.85	127,505,394.80
Including: interest expenses		241,715,596.09	273,617,831.40
Interest income		47,822,335.41	59,198,957.71
Net loss on foreign exchange("-" for net gain)		100,183,554.29	-87,277,521.94
Impairment on assets	V.(55)	1,017,128,616.56	575,375,478.47
Others			
Add: gain from fair-value changes("-" for loss)	V.(56)	-12,995,817.33	9,110,127.34
Investment income("-" for loss)	V.(57)	121,466,718.09	-294,543,913.17
Including: investment income from associates and joint ventures		26,360,761.31	1,783,571.40
Asset disposal income("-" for loss)	V.(58)	3,627,423.23	5,719,256.88
△Gain on foreign exchange("-" for loss)	V.(59)	496.06	
Other income	V.(60)	45,731,908.93	

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
3. Operating profits (“-” for loss)		434,103,183.78	707,180,319.59
Add: non-operating income	V.(61)	72,224,866.35	112,937,843.72
Including: gain from disposal of non-current assets			
Gain from exchange of non-monetary assets			
Government grants		50,539,789.12	102,771,108.59
Gain from debt restructuring		325,314.71	
Less: non-operating expenses	V.(62)	162,961,645.20	162,949,022.36
Including: loss on disposal of non-current assets		3,253,368.68	
Loss on exchange of non-monetary assets			
Loss on debt restructuring			
4. Profit before tax (“-” for loss)		343,366,404.93	657,169,140.95
Less: income tax	V.(63)	82,397,811.03	165,575,300.09
5. Net profit (“-” for net loss)		260,968,593.90	491,593,840.86
(1) Classified by business continuity		260,968,593.90	491,593,840.86
1. Continuing net profit (net loss is marked with “-”)		234,628,922.24	495,017,033.37
2. Discontinued operating net profit (net loss is marked by “-”)		26,339,671.66	-3,423,192.51
(B) Classified by ownership		260,968,593.90	491,593,840.86
1. Net profit attributable to shareholders of the parent company		194,226,740.00	413,282,692.39
2. Minority shareholders' profit and loss		66,741,853.90	78,311,148.47

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
6. Other comprehensive income after tax		27,890,241.37	314,099,905.44
Comprehensive income not to be reclassified as profit or loss		25,453,003.92	314,099,905.44
(1) Other comprehensive income that cannot be reclassified into profit or loss in the future			
1. Remeasure the change in net liabilities or net assets of defined beneficiary plans			
2. Shares in other comprehensive income that the investee cannot reclassify into profit or loss under the equity method			
(2) Other comprehensive income that will be reclassified into profit or loss in the future		25,453,003.92	314,099,905.44
1. Shares of other comprehensive income that will be reclassified into profit or loss after the investee in the equity method			
2. Gains and losses from changes in fair value of available-for-sale financial assets		18,515,228.86	
3. Held-to-maturity investment reclassified to available-for-sale financial assets gains and losses			
4. Effective part of cash flow hedge gains and losses		11,046,444.74	311,043,666.81
5. Translation differences in foreign currency financial statements		-4,108,669.68	3,056,238.63
Net post-tax amount of comprehensive income attributable to minority shareholders		2,437,237.45	
7. Total comprehensive income		288,858,835.27	805,693,746.30
Total comprehensive income attributable to owners of the parent		219,679,743.92	727,382,597.83
Total consolidated income attributable to minority shareholders		69,179,091.35	78,311,148.47
8. Earnings per share:			
(1) Basic earnings per share		0.14	0.30
(2) Diluted earnings per share		0.14	0.30

Corporate representative:

Chief Accountant:

Accounting Supervisor:

INCOME STATEMENTS

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
1. Revenue	XIV ∙ (4)	3,033,794,119.01	1,594,455,693.62
Including: operating revenue		3,033,794,119.01	1,594,455,693.62
△ Interest income			
△ Premium earned			
△ Fees and commissions income			
2. Cost of sales		3,349,178,611.06	1,974,280,669.13
Including: operating cost	XIV ∙ (4)	2,880,548,791.88	1,598,487,982.91
△ 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			
Taxes and surcharges		15,964,770.64	10,133,236.79
Selling expenses		590,811.76	8,331,002.57
Administrative expenses		271,995,164.84	170,072,317.65
Including: research and development expenses		13,018,409.99	2,577,358.49
Party building work funds.			
Financial expenses		132,223,275.39	127,206,636.20
Including: interest expenses		164,582,106.32	163,461,036.99
Interest income		39,445,778.38	44,774,358.93
Net loss on foreign exchange ("-" for net gain)		-477,459.31	278,142.25
Impairment on assets		47,855,796.55	60,049,493.01
Others			
Add: gain from fair-value changes ("-" for loss)			
Investment income ("-" for loss)	XIV ∙ (5)	158,534,875.67	175,714,974.20
Including: investment income from associates and joint ventures		24,466,436.81	15,029,245.18
Asset disposal income ("-" for loss)			58,622.76
△ Gain on foreign exchange ("-" for loss)			
Other income		12,575,700.00	

INCOME STATEMENTS (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
3. Operating profits (“-”for loss)		-144,273,916.38	-204,051,378.55
Add: non-operating income		41,215.28	3,019,295.00
Including: gain from disposal of non-current assets			
Gain from exchange of non-monetary assets			
Government grants		6,015.28	1,329,513.00
Gain from debt restructuring			
Less: non-operating expenses		34,909,298.85	32,261.00
Including: loss on disposal of non-current assets			
Loss on exchange of non-monetary assets			
Loss on debt restructuring			
4. Profit before tax (“-“for loss)		-179,141,999.95	-201,064,344.55
Less: income tax			-1,089,919.67
5. Net profit (“-“for net loss)		-179,141,999.95	-199,974,424.88
1. Continuing net profit (net loss is marked with “-”)		-179,141,999.95	-199,974,424.88
2. Discontinued operating net profit (net loss is marked by “-”)			
6. Other comprehensive income after tax			
(1) Other comprehensive income that cannot be reclassified into profit or loss in the future			
1. Remeasure the change in net liabilities or net assets of defined beneficiary plans			
2. Shares in other comprehensive income that the investee cannot reclassify into profit or loss under the equity method			
(2) Other comprehensive income that will be reclassified into profit or loss in the future			
1. Shares of other comprehensive income that will be reclassified into profit or loss after the investee in the equity method			
2. Gains and losses from changes in fair value of available-for-sale financial assets			
3. Held-to-maturity investment reclassified to available-for-sale financial assets gains and losses			
4. Effective part of cash flow hedge gains and losses			
5. Translation differences in foreign currency financial statements			
6. Others			

INCOME STATEMENTS (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
7. Total comprehensive income		-179,141,999.95	-199,974,424.88
8. Earnings per share:			
(1) Basic earnings per share			
(2) Diluted earnings per share			

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION CASH FLOW STATEMENT

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
1. Cash flows from operating activities:			
Cash received from sales and services		28,225,962,462.60	32,454,475,137.73
△Net increase in deposits and placements from financial institutions		-1,871,034,396.96	1,042,628,885.32
△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		447,167,753.39	360,306,052.94
△Net increase of placement from banks and other financial institutions			
△Net increase in repurchasing			
Taxes and surcharges refunds		482,180,368.30	528,992,962.40
Other cash receipts related to operating activities		546,476,733.08	455,117,727.21
Total cash inflows from operating activities		27,830,752,920.41	34,841,520,765.60
Cash paid for goods and services		24,402,799,893.73	26,877,535,040.52
△Net increase in loans and advances		-6,059,019.07	-41,024,329.39
△Net increase in deposits with central banks and other financial institutions		-36,795,414.91	-42,713,408.29
△Cash paid for claim settlements on original insurance contracts			
△Cash paid for interest, fees and commissions		28,321,122.91	
△Cash paid for policy dividends			
Cash paid to and for employees		2,815,255,957.74	2,927,069,966.14
Taxes and surcharges cash payments		1,312,144,726.28	1,996,200,537.44
Other cash payments related to operating activities		2,007,334,731.37	1,536,678,042.76
Total cash outflows from operating activities		30,523,001,998.05	33,253,745,849.18
Net cash flows from operating activities		-2,692,249,077.64	1,587,774,916.42

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
2. Cash flows from investing activities:			
Cash received from withdraw of investments		3,390,000,000.00	3,727,874,366.36
Cash received from investment income		207,910,838.39	-281,993,360.94
Net cash received from disposal of fixed assets,intangible assets and other long-term assets		7,040,342.41	875,457.32
Net cash received from disposal of subsidiaries and other business units			-34,408,652.70
Other cash receipts related to investing activities		8,143,264.60	
Total cash inflows from investing activities		3,613,094,445.40	3,412,347,810.04
Cash paid for fixed assets,intangible assets and other long-term assets		1,029,227,966.42	1,000,810,298.99
Cash payments for investments		4,090,000,000.00	2,701,369,891.42
△Net increase in pledged loans			
Net cash paid for acquiring subsidiaries and other business units			
Other cash payments related to investing activities		2,983,041.09	252,473.42
Total cash outflows from investing activities		5,122,211,007.51	3,702,432,663.83
Net cash flows from investing activities		-1,509,116,562.11	-290,084,853.79

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
3. Cash flows from financing activities:			
Cash received from investments by others		1,269,999,456.00	
Including: cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings		1,410,490,000.00	345,560,000.00
△Cash received from bond issues			
Other cash receipts related to other financing activities		6,970,000.00	
Total cash inflows from financing activities		2,687,459,456.00	345,560,000.00
Cash repayments for debts		136,076,363.31	1,352,011,068.04
Cash payments for distribution of dividends, profit and interest expenses		178,148,351.58	322,387,696.62
Including: dividends or profit paid by subsidiaries to minority shareholders			
Other cash payments related to financing activities		79,404,090.85	
Total cash outflows from financing activities		393,628,805.74	1,674,398,764.66
Net cash flows from financing activities		2,293,830,650.26	-1,328,838,764.66
4. Effect of foreign exchange rate changes on cash and cash equivalents		-90,313,766.92	56,791,885.68
5. Net increase in cash and cash equivalents		-1,997,848,756.41	25,643,183.65
Add: beginning balance of cash and cash equivalents		17,204,139,648.41	17,178,496,464.76
6. Ending balance of cash and cash equivalents		15,206,290,892.00	17,204,139,648.41

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CASH FLOW STATEMENT

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
1. Cash flows from operating activities:			
Cash received from sales and services		2,369,086,908.66	2,676,188,687.07
△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		672,088,711.74	159,218,524.61
Total cash inflows from operating activities		3,041,175,620.40	2,835,407,211.68
Cash paid for goods and services		1,986,568,134.41	2,439,199,324.23
△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		92,964,309.20	77,191,330.63
Taxes and surcharges cash payments		121,417,152.80	85,630,839.07
Other cash payments related to operating activities		800,306,047.57	21,768,011.42
Total cash outflows from operating activities		3,001,255,643.98	2,623,789,505.35
Net cash flows from operating activities		39,919,976.42	211,617,706.33

CASH FLOW STATEMENT (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
2. Cash flows from investing activities:			
Cash received from withdraw of investments		800,000,000.00	700,000,000.00
Cash received from investment income		268,448,263.88	91,709,598.02
Net cash received from disposal of fixed assets,intangible assets and other long-term assets			150,000.00
Net cash received from disposal of subsidiaries and other business units			
Other cash receipts related to investing activities			
Total cash inflows from investing activities		1,068,448,263.88	791,859,598.02
Cash paid for fixed assets,intangible assets and other long-term assets		33,481,914.02	32,917,256.72
Cash payments for investments		600,000,000.00	203,706,300.00
△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		633,481,914.02	236,623,556.72
Net cash flows from investing activities		434,966,349.86	555,236,041.30

CASH FLOW STATEMENT (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
3. Cash flows from financing activities:			
Cash received from investments by others		1,269,999,456.00	
Including: cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings		200,000,000.00	
△Cash received from bond issues			
Other cash receipts related to other financing activities			
Total cash inflows from financing activities		1,469,999,456.00	
Cash repayments for debts			
Cash payments for distribution of dividends, profit and interest expenses		41,302,273.53	184,638,304.21
Including: dividends or profit paid by subsidiaries to minority shareholders			
Other cash payments related to financing activities			
Total cash outflows from financing activities		41,302,273.53	184,638,304.21
Net cash flows from financing activities		1,428,697,182.47	-184,638,304.21
4. Effect of foreign exchange rate changes on cash and cash equivalents		502,287.23	298,467.05
5. Net increase in cash and cash equivalents		1,904,085,795.98	582,513,910.47
Add: beginning balance of cash and cash equivalents		1,577,494,784.69	994,980,874.22
6. Ending balance of cash and cash equivalents		3,481,580,580.67	1,577,494,784.69

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY

(Apart from special notes: the unit of amount is RMB)

Items	Current period													
	Equity attributable to parent company													
	Paid-in capital	Preferred stock	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	ΔGeneral risk provision	Retained earnings	Total	Minority interests	Total owner's equity
1. Ending balance of last year Add: increase/decrease due to changes in accounting policies Increase/decrease due to corrections of errors in Prior Period Others	1,376,806,000.00				2,764,208,480.41		-6,938,794.70	15,801,148.88	786,529,945.86		8,486,686,529.09	13,433,093,309.54	1,209,921,445.94	14,642,414,755.48
2. Beginning balance of current year	1,376,806,000.00				2,764,208,480.41		-6,938,794.70	15,801,148.88	786,529,945.86		8,486,686,529.09	13,433,093,309.54	1,209,921,445.94	14,642,414,755.48
3. Increase/decrease for current year - " " for decrease														
(1) Total comprehensive income							25,453,003.92	3,576,278.08			152,922,560.00	1,437,657,591.76	62,079,331.38	1,499,706,923.14
(2) Owner's contributions and withdrawals of capital							25,453,003.92				194,226,740.00	219,678,743.92	69,179,091.35	288,638,635.27
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														
(3) Profits distribution														
1. Appropriation of surplus reserve including statutory surplus reserve														
Discretionary surplus reserve														
Reserve fund														
Corporate development fund														
Return of investment														
2. Accual of general risk reserve														
3. Distribution to owner/shareholder														
4. Others														
(4) 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														
(5) Special reserve														
1. Extraction of special reserves														
2. Use of special reserves														
(6) Others														
4. Ending balance of current year	1,706,523,000.00				3,680,197,230.17		18,514,209.22	19,377,426.96	786,529,945.86		8,649,609,089.09	14,870,750,901.30	1,271,400,777.32	16,142,151,676.62

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Equity attributable to parent company										Minority interests	Total owner's equity
	Paid-in capital	Preferred stock	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	ΔGeneral risk provision	Retained earnings		
1. Ending balance of last year	1,376,606,000.00			2,749,914,774.17		-321,038,700.14	11,122,654.40	786,529,945.66	8,104,055,926.70	12,707,930,800.99	1,209,491,054.28	13,916,881,655.27
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	1,376,606,000.00			2,749,914,774.17		-321,038,700.14	11,122,654.40	786,529,945.66	8,104,055,926.70	12,707,930,800.99	1,209,491,054.28	13,916,881,655.27
3. Increase/decrease for current year - "for decrease"												
(1) Total comprehensive income				14,293,706.24		314,089,805.44	4,678,294.46		392,620,602.39	726,702,508.55	-169,606.34	726,532,902.21
(2) Owner's contributions and withdrawals of capital				14,293,706.24		314,089,805.44			413,262,682.39	727,382,597.93	78,311,148.47	855,683,746.30
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				14,293,706.24						14,293,706.24	-72,112,135.00	57,818,428.76
(3) Profits distribution				14,293,706.24					-20,652,090.00			
1. Appropriation of surplus reserve including statutory surplus reserve												
Discretionary surplus reserve												
Reserve fund												
Corporate development fund												
Return of investment												
Accrual of general risk reserve												
Distribution to owner/shareholder												
Others												
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) 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												
(5) Special reserve												
1. Extraction of special reserves												
2. Use of special reserves												
Others												
4. Ending balance of current year	1,376,606,000.00			2,764,208,480.41		-6,938,794.70	15,801,146.88	786,529,945.66	8,496,686,529.09	13,453,093,339.54	1,209,321,445.94	14,652,414,755.49

Accounting Supervisor:

Chief Accountant:

Corporate representative:

STATEMENTS OF CHANGES IN EQUITY

(Apart from special notes: the unit of amount is RMB)

Items	Current Period							Total owner's equity			
	Paid-in capital	Preferred stock	Other equity instruments Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income		Specialized reserve	Surplus reserve	Retained earnings
1. Ending balance of last year	1,376,806,000.00				2,688,122,360.53				623,302,301.46	1,211,488,600.15	
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				2,688,122,360.53				623,302,301.46	1,211,488,600.15	5,899,719,282.14
3. Increase/decrease for current year --"for decrease"	329,717,000.00				940,282,466.00						1,049,553,276.05
(1) Total comprehensive income											
(2) 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											
(3) 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											
(4) 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											
(5) Special reserve											
1. Extrication of special reserves											
2. Use of special reserves											
(6) Others											
4. Ending balance of current year	1,706,523,000.00				3,628,404,826.53				623,302,301.46	991,042,420.20	6,949,272,556.19

Corporate representative :

Chief Accountant :

Accounting Supervisor :

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

(Apart from special notes: the unit of amount is RMB)

Items	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	Retained earnings	Total owner's equity
	Paid-in capital	Preferred stock	Perpetual bonds							
				2,688,122,380.53				623,302,301.46	1,432,115,115.03	6,120,345,797.02
1. Ending balance of last year	1,376,806,000.00									
Add: increase/decrease due to changes in accounting policies										
Increase/decrease due to corrections of errors in Prior Period										
Others				2,688,122,380.53						
2. Beginning balance of current year	1,376,806,000.00							623,302,301.46	1,432,115,115.03	6,120,345,797.02
3. Increase/decrease for current year: --for decrease										
(1) Total comprehensive income										
(2) 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										
(3) 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										
(4) 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										
(5) Special reserve										
1. Extraction of special reserves										
2. Use of special reserves										
(6) Others										
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	5,899,719,282.14

Corporate representative:

Chief Accountant:

Accounting Supervisor:

NOTES TO 2017 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. After 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. On December 1, 2017, the shareholders’ meeting approved the proposal to issue new domestic shares to Harbin Group, including 3,297,700 new shares. On December 1, 2017, the shareholders’ meeting approved the proposal to issue new domestic shares to Harbin Group, including 3,297,700 new shares. On December 6, 2017, the company received an additional share capital of RMB329,717,000.00 paid by Harbin Group in currency, and the registered capital and share capital of the company changed to RMB1,706,523,000.00. Among them, state-owned legal person shares amounted to 1,030,952,000.00 yuan, which accounted for 60.41% of total share capital, and overseas issued H shares amounted to 675,571,000.00 yuan, which accounted for 39.59% of total share capital.

NOTES TO 2017 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 Zefu

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 were approved by the board of directors on 23 March 2018.

(II) Scope of consolidated financial statements

As of December 31, 2017, 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 2017 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, and "Hong Kong Companies Ordinance" of the Hong Kong Stock Exchange prepare financial statements..

(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 Company and its subsidiaries established certain specific accounting policies and accounting estimates for revenue recognition and other transactions and events based on the actual production and operation characteristics, which were in accordance with the relevant enterprise accounting standards. For details, see the description of in Note III (26) Income.

(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 to31 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 2017 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

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.

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.

NOTES TO 2017 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)

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.

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.

NOTES TO 2017 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)

(1) Acquisition of subsidiaries or business (Continued)

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 remeasurement 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.

In the event of loss of control due to a decrease in the proportion of shares held by the company due to capital increase by other investors, the accounting treatment shall be conducted in accordance with the above principles.

NOTES TO 2017 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) 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 2017 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)

(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

For the accounting policy of the company's investment in joint ventures, see Note "III. (14) Long-term equity investment".

(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 2017 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

The foreign business uses the central parity rate announced by the State Administration of Foreign Exchange on the first working day of the month when the transaction occurred as the exchange rate to convert the foreign currency into RMB for accounting.

The balance of foreign currency monetary items shall be converted at the central parity rate announced by the State Administration of Foreign Exchange on 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. Conversion of foreign currency financial statements

All assets and liabilities items in balance sheet are converted based on central parity rate announced by the State Administration of Foreign Exchange on the balance sheet date; Owners' equity items except "undistributed profit" items, Other items are converted using the central parity rate announced by the State Administration of Foreign Exchange on the first working day of the month when the transaction occurs. The income and expense items in the income statement shall be converted at the central parity rate announced by the State Administration of Foreign Exchange on the first working day of the month when the transaction occurs.

For disposal of overseas operation, the conversion 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. If part of the overseas operations is disposed of, the difference in the foreign currency financial statements of the disposal part shall be converted based on the proportion of the disposal and transferred to the profit or loss of the current period of disposal.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments

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

1. *Classification of the financial instruments*

Management classifies the financial instruments based on purpose in obtaining financial assets held and financial liabilities into: 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.

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.

NOTES TO 2017 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

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.

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.

(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.

NOTES TO 2017 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

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.

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 book value of the entire transferred financial assets shall be apportioned between the derecognized part and the unconfirmed part according to their relative fair value, and include the difference between the following two amounts in the current profit and loss.

- (1) Ending the book value of the confirmation section;
- (2) The price of the terminated part of the confirmation is the sum of the amount of the change in the total amount of the change in the fair value of the original directly into the owner's equity (the case involving the financial assets transferred as the case of the sale of 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 2017 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 financial assets and financial liabilities measured by the company using fair value are all directly related to the quoted price in the active market.

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.

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

The measurement of the impairment loss of held-to-maturity investments is handled in accordance with the method of measuring the impairment loss of accounts receivable.

NOTES TO 2017 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:*

Judgment basis or amount standard of single item amount :

Judgment basis or amount standard of single item amount	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.
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Recognition of receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts	According to the combination of individual recognition of account receivables and aging analysis method
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Method of accruing bad debt provision for major single receivables :

The impairment test is conducted separately. If there is objective evidence that it has been impaired, provision for bad debts will be made based on the difference in the expected future cash flow value below its book value, which shall be included in the current profit or loss. Separately test receivables that have not been impaired and classify them into corresponding portfolios for provision for bad debts.

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

The basis to determine groups

Group 1	Receivables for provision for bad debts based on aging analysis
Group 2	Internal and related party receivables

Accrual method for provision for bad debts by portfolio

Group 1	Aging analysis
Group 2	Except for the basis of confirmation that it is impossible to recover the full provision for bad debts, no provision for bad debts is recognized

NOTES TO 2017 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)

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

In the portfolio, use age analysis method to accrue provision for bad debts :

Age	Provision ratios for accounts ratios receivable (%)	Provision ratios for other receivables (%)
Within 1 year (including 1 year)	0-5	0-5
1-2 years	5-25	5-25
2-3 years	50	50
3-4 years	80	80
4-5 years	80	80
Over 5 years	100	100

The company does not accrue bad debts in the warranty period

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.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(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.

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.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XII) Inventories (Continued)

3. *Determination basis of net realizable value of inventories and provision method of inventory depreciation reserve*

After a full inspect of the inventory at the end of the period, the provision for decline in value of inventories shall be withdrawn or adjusted at the lower of the cost of inventory and the net realizable value.

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.

If the influencing factors of the previous write-down of inventories have disappeared, the amount of write-down shall be restored, and shall be reversed from the provision for falling price of inventories that has been accrued, and the amount transferred back shall be recorded in the current profit or loss.

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 judgment basis for market price anomalies on the balance sheet date is:

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

4. *Inventory system*

The perpetual inventory system is adopted.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XII) Inventories (Continued)

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) Based on the practice of selling such assets or disposal groups in similar transactions, they can be sold immediately under current conditions ;
- (2) The sale is very likely to happen, that is, the company has already made a resolution on a sales plan and obtained a certain purchase commitment. It is expected that the sale will be completed within one year. Those regulations that require the approval of the company's relevant authorities or regulatory authorities before they can be sold have already been approved.

(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 2017 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 long term 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.

(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 non-monetary 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.

NOTES TO 2017 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 (Continued)

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.

(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.

NOTES TO 2017 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)*

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.

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.

NOTES TO 2017 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

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.

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.

NOTES TO 2017 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)

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.

(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.

NOTES TO 2017 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

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.

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

Categories	Depreciation period	Estimated residual value (%)	Annual depreciation rate (%)	Depreciation method
Building 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

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Fixed assets (Continued)

3. *Impairment test method of fixed assets and accrual method of impairment provision*

At the end of each period, the company judges whether the fixed assets may show signs of impairment.

If there are signs of impairment of fixed assets, the recoverable amount should be estimated. The recoverable amount is determined based on the higher one between the net amount of the fair value of the fixed assets minus the disposal expenses and the current value of the estimated future cash flow of the fixed assets.

When the recoverable amount of a fixed asset is lower than its book value, the book value of the fixed asset is written down to the recoverable amount. The amount of write-down is recognized as impairment loss of fixed assets and recorded in the current profit and loss, and meanwhile accrue impairment of assets.

After the impairment loss of fixed assets is confirmed, the depreciation of the impaired fixed assets shall be adjusted accordingly in the future period so that the book value of the adjusted fixed assets (after deducting the estimated net residual value) will be systematically amortized over the remaining useful life of the fixed assets.

Once the impairment loss of fixed assets is confirmed, it will not be reversed in subsequent accounting periods.

Where there are indications that a fixed asset may be impaired, the enterprise estimates the recoverable amount based on a single fixed asset. Where it is difficult for an enterprise to estimate the recoverable amount of a single fixed asset, the recoverable amount of the asset group is determined on the basis of the asset group to which the fixed asset belongs.

4. *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.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Fixed assets (Continued)

4. *Recognition basis and measurement method of fixed assets under finance lease (Continued)*

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.

(XVII) Construction in progress

1. *Categories of construction in progress*

Construction in progress is mainly accounted for by project classification; fixed assets that are purchased or not yet purchased are accounted for in long-term equipment and assets.

2. *Standards and timings for converting construction in progress to fixed assets*

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 depreciation 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.

3. *Impairment test method and accrual method for impairment preparation of construction in progress*

At the end of each period, the company judges whether there is any indication that the construction in progress may be impaired.

If there are signs of impairment of construction in progress, the recoverable amount should be estimated. Where there are indications that a construction in progress may be impaired, the company estimates the recoverable amount on the basis of a single construction in progress. Where it is difficult for an enterprise to estimate the recoverable amount of a single construction in progress, the recoverable amount of the asset group is determined on the basis of the asset group to which the construction in progress belongs.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XVII) Construction in progress (Continued)

3. *Impairment test method and accrual method for impairment preparation of construction in progress (Continued)*

The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the construction in progress minus the disposal expenses and the current value of the expected future cash flow of the construction in progress.

When the recoverable amount of the construction in progress is lower than its book value, the book value of the construction in progress is written down to the recoverable amount, and the amount of the write-down is recognized as the impairment loss of the construction in progress and is included in the current profit and loss. Meanwhile, impairment provisions for construction in progress should be accrued.

Once the depreciation loss of the construction in progress is confirmed, it will not be reversed in the subsequent accounting period.

(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 for acquisition, construction or production to get ready for their intended use or sale.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Borrowing costs (Continued)

1. *Criteria for recognition of capitalized borrowing costs (Continued)*

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.

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.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Borrowing costs (Continued)

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.

(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.

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.

NOTES TO 2017 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)

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

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.

(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 :

When estimating the service life of an intangible asset with a limited service life, the company generally considers the following factors: (1) the normal life cycle of products manufactured using the asset and information on the useful life of similar assets; (2) the current stage of technology, technology, etc. Situation and estimates of future trends; 3 Market demand for products or services provided by the assets; 4 Current or potential competitors expected actions; 5 Expected maintenance expenditures to maintain the economic benefits of the assets, and the company's ability to pay for related expenses; 6 relevant legal regulations or similar restrictions on the term of the asset's control, such as the license period, lease period, etc.; 7 and the company's use of the remaining useful life of other assets.

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.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Intangible assets (Continued)

3. *Judgment basis of intangible assets with uncertain service life :*

The company recognize those assets which cannot bring economic benefits to the company or the intangible assets with uncertain service life as intangible assets with uncertain service lives.

Judgment basis for the uncertainty of useful life: 1. It is due to contractual rights or other legal rights, but there is no clear term of use for contractual or legal provisions; 2. It is impossible to judge whether intangible assets will be brought to the company due to the situation of the same industry or the argumentation of relevant experts. The period of economic benefits.

At the end of each year, the review of the useful life of intangible assets with an indefinite useful life shall be carried out in a bottom-up manner. The relevant departments of intangible assets shall be used for basic review, and whether there is a change in the judgment basis for the indefinite useful life shall be evaluated.

4. *Provision for impairment of intangible assets*

For intangible assets with a certain useful life, if there is any sign of significant impairment, an impairment test will be conducted at the end of the period.

For intangible assets with indefinite useful lives, impairment tests are conducted at the end of each period.

Impairment tests are performed on intangible assets to estimate their recoverable amount. If there is any indication that an intangible asset may be impaired, the company estimates its recoverable amount on the basis of a single intangible asset. Where it is difficult for the company to estimate the recoverable amount of a single asset, the recoverable amount of the intangible asset group is determined on the basis of the asset group to which the intangible asset belongs.

The recoverable amount is determined based on the higher one between the net amount of the fair value of intangible assets minus the disposal expenses and the present value of the estimated future cash flow of the intangible assets.

When the recoverable amount of an intangible asset is lower than its book value, the book value of the intangible asset is written down to the recoverable amount. The write down amount is recognized as impairment loss of intangible assets, and is included in the current profit and loss, meanwhile, intangible assets are accrued impairment of assets.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Intangible assets (Continued)

4. *Provision for impairment of intangible assets (Continued)*

After the impairment loss of intangible assets is confirmed, the depreciation or amortization cost of the impairment of intangible assets will be adjusted accordingly in the future period so that the intangible assets can be systematically amortized with the adjusted book value of intangible assets (net of estimated net Residual value).

Once the impairment loss of intangible assets is confirmed, it will not be reversed in subsequent accounting periods.

5. *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.

6. *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:

- (1) It is technically feasible to complete this intangible asset so that it can be used or sold;
- (2) Have the intention to complete the intangible assets and use or sell them;
- (3) The ways in which intangible assets generate economic benefits include the existence of a market for intangible assets that are capable of proving the existence of a market for the products produced using such intangible assets. Intangible assets are used internally and can prove their usefulness;
- (4) Sufficient technical, financial, and other resources to support the development of this intangible asset and the ability to use or sell the intangible asset;
- (5) Expenditure attributable to the development phase of intangible assets can be reliably measured.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Intangible assets (Continued)

6. Specific criteria for development phase qualified for capitalization (Continued)

Expenditure in the development phase, if it does not meet the conditions listed above, is charged to profit or loss for the current period when incurred. Expenditure in the research phase is included in current profit or loss when 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.

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.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(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 deferred expenses incurred by the company shall be measured at the actual cost and amortized on an average basis for the expected period of benefit. For the long-term deferred expenses that cannot benefit the subsequent accounting period, the amortized value of the project shall be included in the current profit and loss when determined.

(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 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.

NOTES TO 2017 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.

For details, please refer to "5. (28) Payable Employees' Salary" in this Note.

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 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(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.

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.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(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

(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.

NOTES TO 2017 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*

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 recognize 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. Undersuch 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 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.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XXV) Share-based payments (Continued)

(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.

The sales revenue of the company mainly comes from the production of units below 600MW, valves and other small pieces of equipment and other. The small units such as generating units and valves below 600MW are confirmed by the customer's confirmation receipts as revenue confirmation points.

NOTES TO 2017 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 2017 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 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 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 2017 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.

2. Accounting treatment and recognition time point

The company's specific criteria for classifying government grants as related to assets are:

Government grants relating to the acquisition or construction of long-term assets such as fixed assets and intangible assets are recognized as deferred income and are charged to the profit or loss of the current period in a reasonable and systematic manner over the useful life of the relevant assets(if it is related to the daily activities of the company is included in other income; If it is not related to the daily activities of the company, it is included in non-operating income);

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 in the period of confirming the related cost, expense or loss, it shall be included in the current profit and loss.(The government grant related to the daily activities of the company is included in other income; If it is not related to the daily activities of the company, it is included in non-operating income) : For the compensation of related costs and losses already incurred by the company, it shall be directly included in the current profit and loss. (The government grant related to the daily activities of the company is included in other income; If it is not related to the daily activities of the company, it is included in non-operating income).

When the company does not specifically subsidize a specific object for a comprehensive project government document, it is broken down into assets-related part and income-related part and performs accounting treatment separately; if it is difficult to distinguish, the government subsidy is classified as income-related government grant. Government grants are charged to profit or loss for the current period depending on the circumstances or recognized as current income in installments during the project period. Government grants are charged to profit or loss for the current period depending on the circumstances or recognized as current income in installments during the project period.

NOTES TO 2017 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 2017 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 mount 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.

(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.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(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.

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%.

NOTES TO 2017 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:

(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.

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 non-financial 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 non-financial liability).

NOTES TO 2017 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)*

(2) *Cash flow hedges (Continued)*

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.

(XXXII) Change in major accounting policies and accounting estimates

1. *Change in major accounting policies*

Implementation of Accounting Standards for Business Enterprises No. 42 – Non-Current Assets held for Sale, Disposal Group and Discontinuation of Operations, Accounting Standards for Business Enterprises No. 16 – Government Subsidies, Notice of the Ministry of Finance on Revising and Printing the Format of Financial Statements of General Enterprises

The Ministry of Finance issued Accounting Standard for Business Enterprises No. 42 – Non-Current Assets for Sale, Disposal Groups, and Termination of Operations in 2017, which was implemented on May 28, 2017. For non-current assets held for sale on the day of execution, disposal group, and termination of operations, future application is required.

The Ministry of Finance revised the Accounting Standards for Business Enterprises No. 16 – Government Grants in 2017. The revised standards will come into effect on June 12, 2017. For government subsidies that occurred on and after January 1, 2017, they must be applied in future application. For the new government grants from January 1, 2017 to the implementation date, it is also required to make adjustments according to the revised guidelines.

NOTES TO 2017 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 (Continued)

1. Change in major accounting policies (Continued)

In 2017, the Ministry of Finance issued the "Notice of the Ministry of Finance on Revising the Format of Financial Statements for General Enterprises". The format of the general corporate financial statements has been revised to apply to the financial statements for the 2017 and subsequent periods.

The main impact of the company's implementation of the above three regulations is as follows :

Changes in Accounting Policies and Causes	Affected report	
	item names	Affected amount
(1) Listed in the income statement are "continuing net profits" and "discontinued net profits." Comparison data adjusted accordingly, adjust compared data accordingly.	Continuing net profit	Consolidated Income Statement: Listed amount of continuing net profits is RMB234,628,922.24 for the current period, and the amount of last period is RMB495,017,033.37 ; Listed amount of discontinued net operating profit for the current period is RMB26,339,671.66, and the amount of last period is RMB -3,423,192.51. Income Statement: Listed amount of continuing net profits for the current period is RMB -179,141,999.95, the amount of last period is RMB -199,974,424.88; Listed amount of net operating profit for the period of discontinued operations is 0.00 and the amount of last period is RMB0.00.
(2) Since January 1, 2017, government subsidies related to the company's daily activities have been reclassified from "non-operating income" items to "other income" items. Comparison data is not adjusted.	Non-operating income, other income	Consolidated Income Statement: other income RMB45,731,908.93. Income Statement: other income RMB12,575,700.00.

NOTES TO 2017 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 (Continued)

1. *Change in major accounting policies (Continued)*

Changes in Accounting Policies and Causes	Affected report item names	Affected amount
(3) A new "asset disposal proceeds" item was added to the income statement, and some of the profit and loss of asset disposal originally listed as "non-operating income" and "non-operating expenses" was reclassified to the "assets disposal proceeds" item. Comparison data adjusted accordingly.	Non-operating income, non-operating expenses, asset disposal income	Amount of Current period : Non-operating income of consolidated income statement decreased by RMB4,550,539.44 · Non-operating expenses decreased by RMB923,116.21, Reclassified asset disposal proceeds is RMB3,627,423.23 : Non-operating Income in income Statement Reduces by RMB0, and non-operating expenses decreased by RMB0 and reclassified assets disposal proceeds is RMB0. The amount of last period : Non-operating income in the consolidated statement of profit decreased by RMB8,189,029.95, non-operating expenses decreased by RMB2,469,773.07, income from disposal of reclassified assets was RMB5,719,256.88, non-operating income from the company's income statement decreased by RMB131,878.18, non-operating expenses decreased RMB73,255.42, and reclassified assets disposal income reached RMB58,622.76.

2. *There are no significant changes in accounting estimates in this period.*

NOTES TO 2017 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%
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 (<i>Note 1</i>)	15%
Harbin Turbine Company Limited and its subsidiary (<i>Note 2</i>)	15%
Harbin Power Technology & Trade Inc	25%
Harbin Electrical Machinery Company Limited and its subsidiary (<i>Note 3</i>)	15%
Harbin Power Equipment National Engineering Research Centre Co., Ltd (<i>Note 4</i>)	15%
HE Harbin Power Plant Valve Company Limited (<i>Note 5</i>)	15%
Chengdu Sanliya Technology Company	25%
Harbin Boiler Company Limited and its subsidiary (<i>Note 6</i>)	15%
Harbin Electric Power Equipment Company Limited (<i>Note 7</i>)	15%
Harbin Electric Corporation (QHD) Heavy Equipment Company Limited (<i>Note 8</i>)	15%
Harbin Electric Corporation Finance Company Limited	25%
Harbin Electric International Company Limited (<i>Note 9</i>)	15%
Harbin Electric Corporation	25%

(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 28 August, 2017, the Company obtained the High and New Technology Enterprise certificate (Number: GR201723000191) 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 2017 FINANCIAL STATEMENTS (CONTINUED)

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

IV. TAXATION (CONTINUED)

(II) Tax Preference (Continued)

2. *Harbin Turbine Company Limited and its subsidiaries*

On 28 August, 2017, Harbin Turbine Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201723000107) 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 28 August, 2017, 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: GR201723000051) 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 28 August 2017, Harbin Electrical Machinery Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201723000101) 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.

4. *Harbin Power Equipment National Engineering Research Centre Co., Ltd*

On 28 August 2017, Harbin Power Equipment National Engineering Research Centre Co., Ltd obtained the High and New Technology Enterprise certificate (Number: GR201723000350) 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 2017 FINANCIAL STATEMENTS (CONTINUED)

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

IV. TAXATION (CONTINUED)

(II) Tax Preference (Continued)

5. *HE Harbin Power Plant Valve Company Limited*

On 28 August 2017, HE Harbin Power Plant Valve Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201723000181) 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 Boiler Company Limited and its subsidiary*

On 28 August 2017, the company obtained the High and New Technology Enterprise certificate (Number: GR201723000081) 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.

7. *Harbin Electric Power Equipment Company Limited*

On 24 November 2017, Harbin Electric Power Equipment Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201723000424) 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.

8. *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 Nov 2016. The relevant certificate number was GR20161300235, effective for 3 years and entitled the company to pay Enterprise Income Tax at a rate of 15% within the period.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

IV. TAXATION (CONTINUED)

(II) Tax Preference (Continued)

9. 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	6,045,527.87	8,884,872.77
Bank deposit	15,200,245,364.13	17,195,254,775.64
Other currency	958,947,389.47	885,773,431.13
Total	16,165,238,281.47	18,089,913,079.54
Among: total amount of currency in foreign countries	340,192,598.89	368,684,381.74

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	170,732,122.63	65,076,850.00
The l/c deposit	35,000,000.00	35,769,672.30
Guarantee deposit	653,947.06	570,174.14
The central bank's legal deposit reserve	747,561,319.78	784,356,734.69
The court frozen deposits	5,000,000.00	
Total	958,947,389.47	885,773,431.13

At the end of the year, the company's foreign currency funds were RMB340,192,598.89. The funds were the closing balance of Harbin Electric International Company Limited's foreign engineering field's appropriation.

NOTES TO 2017 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

2.1 Notes receivable shown as classification

Type	Closing balance	Opening balance
Bank acceptance	3,456,193,947.99	3,273,397,093.42
Business acceptance	906,257,730.87	533,069,918.38
Total	4,362,451,678.86	3,806,467,011.80

2.2 The notes receivable that have been endorsed 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	1,187,219,655.52
Trade acceptance	59,861,284.11
Total	1,247,080,939.63

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

3. Accounts receivable

The basis for the company's accounts receivable aging analysis is based on: confirm age of accounts receivable by the confirming time of project revenue on the basis of contract order. Under normal circumstances, the recovered receivables are first confirmed to the contract items, receivables attributable to a contract are used first to pay off early claims. When the early settlement of claims is completed, it is used to repay the subsequent claims, that is, according to the chronological order, the old ones will be paid off first and then the new accounts will be repaid.

1. Net account receivable shown by age

Age	Closing balance	Opening balance
Within one year	6,006,528,718.46	5,463,345,422.15
One to two years	2,332,095,905.85	2,397,645,241.72
Two to three years	1,145,190,030.50	1,345,081,304.31
Over three years	1,104,771,633.33	854,164,006.74
Total	10,588,586,288.14	10,060,235,974.92

Notes: The credit period given to customers varies, and generally depends on the financial strength of individual customers. To effectively manage the credit risk associated with accounts receivable, the Group regularly evaluates the creditworthiness of its customers.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

3. Accounts receivable (Continued)

2. Account receivable shown by classification

Type	Closing balance					Opening balance				
	Carrying Amount		Bad debt Provision		Book value	Carrying Amount		Bad debt Provision		Book value
	Amount	Percentage (%)	Amount	Percentage (%)		Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivable with individual significance and accruing bad debt provision individually	583,116,164.56	3.59	453,326,138.19	77.74	129,790,026.37	610,218,963.59	3.97	445,127,622.43	72.95	165,091,341.16
Accounts receivable accruing bad debt provision in credit risk characteristic portfolio	15,432,497,914.00	95.13	5,052,399,099.88	32.74	10,380,098,814.12	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	206,917,017.25	1.28	128,219,569.60	61.97	78,697,447.65	131,727,172.05	0.86	67,552,298.81	51.28	64,174,873.24
Total	16,222,531,095.81	/	5,633,944,807.67	/	10,588,586,288.14	15,366,216,515.36	/	5,305,980,540.44	/	10,060,235,974.92

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

3. Accounts receivable (Continued)

3. Accounts receivable with individual significance and individually accruing bad debt provision at the end of year :

Debtor	Closing balance			Reason
	Accounts receivable	Bad debt provision	Percentage (%)	
National Water Conservancy Department (Merowe Project) of the Republic of Sudan	258,361,658.95	241,844,991.98	93.61	<i>Note 1</i>
Xinjiang Jin Huizhao Abundant Energy co., Ltd	125,210,000.00	125,210,000.00	100.00	Involved in litigation, may not be able to recover
China Nuclear Engineering Co., Ltd	106,040,000.00			According to the future recyclability of judgment
Chiping Xinfra Supplies Service Co., Ltd	57,225,000.00	57,225,000.00	100.00	Project suspended
Sudan Power Dam Department	36,279,505.61	29,046,146.21	80.06	According to the future recyclability of judgment
Total	583,116,164.56	453,326,138.19		

Note 1: The company has signed Export buyer's credit insurance No. MSEC010056, No. LSA2004026 and No. LSA2005045 with the China Import & Export Credit Insurance Company on June 15, 2001, September 21, 2004 and December 27, 2001 for Merowe, Sudan, Geely Phase I Project and Geely Phase II Project, avoiding part of the collection risk through guarantee. At the end of December 31, 2017, the total balance of accounts receivable of the three projects was USD47,339,736.83, which was equivalent to the standard currency of RMB309,327,308.39. The company has used single provision for bad debts of overdue receivables of USD43,353,110.21.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

3. Accounts receivable (Continued)

4. Accounts receivable accruing bad debt provision in credit risk characteristic portfolio

(1) Accounts receivables accruing bad debt provision by applying aging analysis :

Age	Closing balance			Opening balance		
	Amount	Bad debt Provision	Percentage (%)	Amount	Bad debt Provision	Percentage (%)
Within one year (including one year)	6,139,474,339.38	288,959,284.32	4.71	5,538,254,545.50	220,086,989.91	3.97
One to two years (including two years)	2,940,828,553.75	705,792,023.29	24.00	2,857,332,797.39	468,046,907.64	16.38
Two to three years (including three years)	1,733,917,383.92	666,894,996.53	38.46	1,929,698,891.66	620,933,812.81	32.18
Three to four years (including four years)	1,383,981,084.23	793,660,767.19	57.35	1,144,009,712.50	721,633,912.83	63.08
Four to five years (including five years)	893,527,546.73	477,947,173.30	53.49	1,213,096,657.82	862,219,191.86	71.08
Over five years	2,340,769,005.99	2,119,144,855.25	90.53	1,941,877,774.85	1,900,379,804.15	97.86
Total	15,432,497,914.00	5,052,399,099.88		14,624,270,379.72	4,793,300,619.20	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

3. Accounts receivable (Continued)

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

Debtor	Closing balance			Reason
	Amount	Bad debt provision	Proportion (%)	
Sudan State Power Company (Sudan Geely Phase II Project)	25,865,491.06	22,123,421.37	85.53	Note 1
Sudan State Power Company (Sudan Geely Phase I Project)	25,100,158.38	19,309,479.38	76.93	Note 1
Inner Mongolia Hongyu Technologies Inc	17,510,000.00	17,510,000.00	100.00	unable to take back
Sichuan Chuan Boiler Co., Ltd	16,728,059.26	4,409,994.57	26.36	Individual withdrawal based on recyclability
The State Power Company in Vietnam (Vietnam offshore project)	15,908,559.95	15,908,559.95	100.00	project suspended
Sultan Dam Department Thermal Power Company	14,877,315.51	3,719,328.91	25.00	Individual withdrawal based on recyclability
Huarun New Energy (Beipiao) Wind Energy Ltd	10,712,319.27	10,712,319.27	100.00	unable to take back
Erdos Green Photoelectric Co Ltd	9,240,000.00	9,240,000.00	100.00	project suspended
EREN Enerji Elektrik Uretim A.S.	8,469,137.88			– Remaining margin
Beijing Xingyi Century Science and Technology Co Ltd	7,303,000.00	7,303,000.00	100.00	unable to take back
SUN YU MIN	6,152,096.00	615,209.60	10.00	Individual withdrawal based on recyclability
K-ELECTRIC. LIMITED	6,063,248.22	6,063,248.22	100.00	unable to take back
Zhongyuan Foreign Engineering Co., Ltd	4,474,567.10			– Individual withdrawal based on recyclability

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

3. Accounts receivable (Continued)

5. Accounts receivable with individual insignificance but individually accruing bad debt provision at the end of year: (Continued)

Debtor	Closing balance			Reason
	Amount	Bad debt provision	Proportion (%)	
China Nuclear Power Engineering Co	2,940,000.00			– Individual withdrawal based on recyclability
Refco Group Ltd	2,875,000.00			– Have signed tripartite restructuring agreement
YU ZHI GANG	2,722,632.48	855,189.70	31.41	Individual withdrawal based on recyclability
Beijing 31 Electric System LLC	1,648,321.60	1,648,321.60	100.00	unable to take back
Jiaozuo Huarun Power Co. Ltd.	1,344,824.80	1,344,824.80	100.00	unable to take back
Angang Heavy Machinery Co., Ltd	1,330,000.00	1,064,000.00	80.00	Individual withdrawal based on recyclability
Sultan Thermal Power Company	1,197,646.32	598,823.16	50.00	Individual withdrawal based on recyclability
Nuclear Power Institute of China	1,080,000.00			– Individual withdrawal based on recyclability
Dalian Power Plant of HUANENG Power Int'l Inc	1,032,200.00			– Remaining margin
Shaanxi Hadian Motor Sales Co., Ltd	1,020,080.00	1,020,080.00	100.00	unable to take back
Others	21,322,359.42	4,773,769.07	22.39	
Total	206,917,017.25	128,219,569.60	/	

6. The situation of provision, back or withdraw the bad debt provision

The bad debt provision of this year was CNY440,199,582.34, Return or recover bad debts for CHY229,664.59.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

3. Accounts receivable (Continued)

7. Actual write-off of accounts receivable in the current period

Debtor	Nature of accounts receivable	Write-off amount	Reasons for writing off	Fulfilment of verification procedures	Is it due to a related transaction
Huaneng International Development Company Huaneng Hegang Power Plant	quality guarantee deposit	13,300,000.00	Money cannot be recovered	board resolution	No
Shandong Power Group Shiliquan Power Plant	quality guarantee deposit	12,901,164.59	Money cannot be recovered	board resolution	No
Heilongjiang Electric Power Company Hasan Power Plant	quality guarantee deposit	11,900,000.00	Money cannot be recovered	board resolution	No
Zhujiang Power	loan	9,300,000.00	Power plant removed and reformed	board resolution	No
Fuxin Power Generation Co. Ltd	loan	5,600,000.00	Power plant removed and reformed	board resolution	No
Hegang Power Plant	loan	5,350,000.00	Power plant removed and reformed	board resolution	No
Luoyang Sunshine Power Company Limited	quality guarantee deposit	5,175,625.09	Money cannot be recovered	board resolution	No
Shanxi Yushe Power Plant	loan	4,600,000.00	Power plant removed and reformed	board resolution	No
Jiangsu Provincial Electric Power Company Xiaguan Power Plant	quality guarantee deposit	4,300,000.00	Money cannot be recovered	board resolution	No
Kunming Haguo Valve Sales Co., Ltd.	quality guarantee deposit	1,920,000.00	Money cannot be recovered	board resolution	No
Northeast Electric Power Bureau Liaoning Power Company Fuxin Power Plant	quality guarantee deposit	1,620,000.00	Money cannot be recovered	board resolution	No
Luoyang Sunshine Power Company Limited	quality guarantee deposit	1,610,655.10	Money cannot be recovered	board resolution	No
Inner Mongolia Energy Investment Group Limited	Loan	1,459,500.00	Project is not approved, and funding is difficult	board resolution	No
Shandong Liaocheng Power Plant	loan	1,420,000.00	Power plant removed and reformed	board resolution	No
Chongqing City Water River Power Company Limited	quality guarantee deposit	1,370,000.00	Money cannot be recovered	board resolution	No

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

3. Accounts receivable (Continued)

7. Actual write-off of accounts receivable in the current period (Continued)

Debtor	Nature of accounts receivable	Write-off amount	Reasons for writing off	Fulfilment of verification procedures	Is it due to a related transaction
Hubei Qingshan Power Plant	loan	1,300,000.00	Power plant removed and reformed	board resolution	No
Harbin Boiler Company Sales Company Limited (Shandong Luxi)	quality guarantee deposit	1,500,000.00	Money cannot be recovered	board resolution	No
Shenzhen West Electric Power Co., Ltd	loan	850,000.00	Power plant removed and reformed	board resolution	No
Chongqing Water River Power Company Limited	quality guarantee deposit	820,000.00	Money cannot be recovered	board resolution	No
Luoyang Sunshine Power Company Limited	loan	792,500.53	Liquidation	board resolution	No
Fujian Nanping Nandian Hydropower Equipment Manufacturing Co., Ltd.	loan	766,049.65	Liquidation	board resolution	No
Xinjiang Third Construction Engineering Company	quality guarantee deposit	542,000.00	Money cannot be recovered	board resolution	No
High Pressure Heating in Fushun Power Plant Spread	quality guarantee deposit	400,000.00	Money cannot be recovered	board resolution	No
Shandong Luneng Power Plant	quality guarantee deposit	400,000.00	Money cannot be recovered	board resolution	No
Inner Mongolia Monsien Power Engineering Construction Department	quality guarantee deposit	303,768.77	Money cannot be recovered	board resolution	No
Harbin City Ammon Community Construction Headquarters	quality guarantee deposit	290,000.00	Money cannot be recovered	board resolution	No
Xinjiang Dongfeng Boiler Manufacturing Co Ltd	quality guarantee deposit	280,188.21	Money cannot be recovered	board resolution	No
Xinjiang Western Region Cement Company	quality guarantee deposit	265,000.00	Money cannot be recovered	board resolution	No
Small receivables	loan	369,602.75	Long aging, Dunning cost is greater than the amount owed	board resolution	No
Total	-	90,706,054.69	-	-	-

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

3. Accounts receivable (Continued)

8. The top five debtors of accounts receivable at the end of the year

Debtor	Closing balance		
	Amount	Proportion of total account receivable (%)	Bad debt provision
703 Research Institute of China Shipbuilding Industry Corp	432,494,502.39	2.67	38,227,342.62
China Nuclear Power Engineering Co	355,407,801.14	2.19	17,770,390.06
The Republic of the Sudan National Water Conservancy Irrigation Department	258,361,658.95	1.59	241,844,991.98
Huadian International Material Co. Ltd.	240,542,610.00	1.48	12,027,130.50
Shandong Power Construction Third Engineering Company	224,939,207.47	1.39	54,674,077.31
Total	1,511,745,779.95	9.32	364,543,932.47

9. Receivables derecognized due to transfer of financial assets

No accounts receivable due to transfer of financial assets during the current period.

10. Transfer of accounts receivable and continued involvement in the formation of assets and liabilities

The amount of assets and liabilities that have not been transferred during the current period and continue to be involved in the formation.

NOTES TO 2017 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

1. Categorized by aging

Age	Closing balance			Opening balance		Bad debt provision
	Amount	Percentage (%)	Bad debt provision	Amount	Percentage (%)	
Less than a year	4,033,563,401.69	74.72		4,321,621,334.17	71.58	
One to two years	746,833,483.66	13.83	279,869.02	859,561,287.28	14.24	
Two to three years	357,438,347.29	6.62	279,905.13	710,850,531.94	11.77	
Over three years	260,459,984.07	4.83	7,884,185.68	145,304,931.80	2.41	
Total	5,398,295,216.71	100.00	8,443,959.83	6,037,338,085.19	100.00	

Significant advance payment with aging over 1 year

Creditor Name	Debtor Name	Closing balance	Aging	Unliquidated Reason
Harbin Electric International Engineering Co., Ltd	GENERAL ELECTRIC (SWITZERLAND) GMBH	165,630,555.65	1-2 years	The contract has not been completed
Harbin Turbine Co. Ltd	MITSUBISHI	122,507,104.00	2-3 years	Long production cycle is not settled
Harbin Electric Power Equipment Co., Ltd	Andritz AG	89,341,956.81	less than 4 years	The contract has not been completed
Harbin Electric Power Equipment Co., Ltd	Curtiss-Wright Electro	86,989,477.19	2-3 years	The contract has not been completed
Harbin Motor Factory Co., Ltd	China Electric Power Construction Group Beijing Survey and Design Institute Co. Ltd.	86,428,664.00	1-2 years, 2-3 years	The contract has not been completed
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd	Sweden S.M.T	41,392,919.33	1-2 years, 2-3 years	The contract has not been completed
Harbin Electric International Engineering Co., Ltd	China Water Conservancy and Hydropower Eighth Engineering Bureau Co. Ltd.	41,384,631.05	1-2 years	The contract has not been completed
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd	VALINOX NUCLEAIRE	39,398,157.16	1-2 years, 2-3 years, over 3 years	The contract has not been completed

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

Significant advance payment with aging over 1 year (Continued)

1. Categorized by aging (Continued)

Creditor Name	Debtor Name	Closing balance	Aging	Unliquidated Reason
Harbin Electric Power Equipment Co. Ltd	EMD	39,082,489.60	2-3 years	The contract has not been completed
Harbin Electric Co., Ltd.	China Electric Power Equipment Co. Ltd.	26,560,188.73	1-2 years, over 3 years	The contract has not been completed
Harbin Turbine Co. Ltd	Greenville Energy Research.	25,379,772.48	3-4 years	Not yet settled
Harbin Boiler Company Limited	Harbin Haguo Industrial Development LLC	25,000,000.00	1-2 years	Not yet settled
Harbin Electric International Engineering Co., Ltd	Henan First Thermal Power Construction Company	16,130,218.05	over 3 years	The contract has not been completed
Harbin Electric International Engineering Co., Ltd	HABIB RAFIQ (PVT) LTD	13,453,838.43	1-2 years	The contract has not been completed
Harbin Motor Factory Co., Ltd.	Northeast China Water Survey and Design Research Co., Ltd.	13,379,257.60	2-3 years	The contract has not been completed
Harbin Boiler Company Limited	Zhejiang Guang Han Environmental Protection Technologies Inc	11,700,000.00	3-4 years	Not yet settled
Harbin Electric International Engineering Co., Ltd	KSB Shanghai Pump Co. Ltd	10,724,305.00	1-2 years	The contract has not been completed
Harbin Motor Factory Co., Ltd.	Nanjing NARI Group Corporation	9,571,404.50	1-2 years, 2-3 years	The contract has not been completed
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd	Vallourec Heat Exchanger Tubes	9,009,949.79	2-3 years	The contract has not been completed
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd	mitsubishi Hitachi Power Systems, Ltd.	8,474,340.00	2-3 years, over 3 years	The contract has not been completed
Harbin Boiler Company Limited	Qingdao Xinfengyuan Power Equipment Co., Ltd.	7,685,858.00	1-2 years	Not yet settled
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd	The United States International Engineering Company	7,514,253.69	Over 3 years	The contract has not been completed
Harbin Electric International Engineering Co., Ltd	China National Electric Equipment Corporation;	7,250,000.00	Over 3 years	The contract has not been completed
Harbin Motor Factory Co., Ltd.	Zhejiang Huadong Electromechanical Engineering Co. Ltd	7,146,000.00	2-3 years	The contract has not been completed

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

Significant advance payment with aging over 1 year (Continued)

1. Categorized by aging (Continued)

Creditor Name	Debtor Name	Closing balance	Aging	Unliquidated Reason
Harbin Electric International Engineering Co., Ltd	Harbin Electric Group Acheng Relay Co., Ltd.	6,895,006.65	1-2 years, 2-3 years	The contract has not been completed
Harbin Electric International Engineering Co., Ltd	Zhenjiang Municipal Electric Appliance Factory	6,725,154.00	Over 3 years	The contract has not been completed
Harbin Electric Power Equipment Co. Ltd.	Forge Monchieri	6,343,860.32	Less than 2 years	The contract has not been completed
Harbin Boiler Factory Co. Ltd.	Yixing Liyuan Real Steel Co. Ltd.	6,288,925.00	1-2 years	Not yet settled
Harbin Steam Turbine Factory Co. Ltd.	Everbelieve International Trade Co. Ltd	6,274,175.87	2-3 years	Not yet settled
Harbin Boiler Factory Co. Ltd.	Datang Environmental Industry Group Co., Ltd.	5,820,000.00	1-2 years	Not yet settled
Harbin Electric Machinery Factory Co. Ltd	Heilongjiang Building Installation Group Co. Ltd.	5,726,842.44	1-2 years	The contract has not been completed
Harbin Electric Machinery Factory Co. Ltd	Jiangsu Da Quan Closed String Co. Ltd.	5,690,409.00	1-2 years, 2-3 years	The contract has not been completed
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd	Qinhuangdao Steel Home Trading Co. Ltd.	5,590,633.58	1-2 years, 2-3 years, over 3 years	The contract has not been completed
Harbin Electric Power Equipment Co. Ltd.	Holtec International	5,513,936.22	Less than 1 year, 3-4 years	The contract has not been completed
Harbin Steam Turbine Factory Co. Ltd.	France TPMa Company	5,499,952.80	Over 5 years	Long production cycle is not settled
Total		977,504,236.94		

NOTES TO 2017 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
Fixed term deposit	2,096,712.27	1,944,937.39
Bond investment	1,180,684.93	
Entrust loans		289,070.83
Entrust financial product		61,666.67
Total	3,277,397.20	2,295,674.89

6. Dividends receivable

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

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

7. Other receivables

1. Other receivables disclosed by type

Type	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	553,432,092.48	45.78	24,513,082.20	4.43	528,919,010.28	868,109,891.66	68.57	30,353,741.38	3.50	837,756,150.28
Other receivables accruing bad debt provision in portfolio	260,950,334.75	21.58	204,569,695.20	78.39	56,380,639.55	224,146,968.59	17.70	163,349,806.41	72.88	60,797,162.18
Other receivables without individual significance but individually accruing bad debt provision	394,585,307.53	32.64	26,319,167.07	6.67	368,266,140.46	173,785,835.99	13.73	13,349,568.07	7.68	160,436,267.92
Total	1,208,967,734.76	/	255,401,944.47	/	953,565,790.29	1,266,042,696.24	/	207,053,115.86	/	1,058,989,580.38

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

7. Other receivables (Continued)

2. Other receivables with individual significance and individually accruing bad debt provision :

Debtor	Closing balance			
	Other receivable	Bad debt provision	Proportion (%)	Reason
Harbin Electric Group Co. Ltd.	162,095,125.59		–	Related parties do not accrue
CELECT	95,034,684.33		–	Advance Ecuadorian hydropower owners on-site costs
Harbin Electric Industrial Development Corporation	62,982,138.98		–	Related parties do not accrue
ACWA Power Harbin Holdings Limited	58,561,306.26		–	Advance project funds
National Energy Administration	51,989,900.16		–	National allocation of special funds is not accrued
National Power Parks Management Co. Ltd	45,991,522.31		–	Advance Pakistani Bailukai project owner's customs clearance fee
Ecuador branch	15,422,842.66		–	Receivable project company tax refund
Daqing Ruihao Energy Technology Co Ltd	13,995,000.00	13,995,000.00	100.00	It cannot be recovered
The third-generation nuclear power key components steam generator tube plate processing series tool application demonstration major projects	13,197,172.78		–	Special funds for scientific research are to be hedged against special payables after acceptance
Pakistan Punjab Taxation Bureau	12,937,465.96		–	Pakistan Bailukai project owners withhold income tax
International Bank	10,706,851.25		–	Guarantee deposit
Harbin Motor Factory Electromechanical Industrial Company	10,518,082.20	10,518,082.20	100.00	It cannot be recovered
Total	553,432,092.48	24,513,082.20		

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

7. Other receivables (Continued)

3. Other receivables accruing bad debt provision based on a portfolio

(1) Other receivables accruing bad debt provision by applying aging analysis :

Age	Closing balance			Opening balance		
	Amount	Bad debt provision	Proportion (%)	Amount	Bad debt provision	Proportion (%)
Within one year (including one year)	49,738,479.97	2,486,866.91	5.00	57,519,545.37	2,875,977.27	5.00
One to two years (including two years)	2,392,280.13	595,243.75	24.88	1,910,350.69	477,587.67	25.00
Two to three years (including three years)	104,718.50	52,359.25	50.00	198,421.00	99,210.50	50.00
Three to four years (including four years)	23,298,484.26	18,638,787.41	80.00	16,323,096.04	13,058,476.83	80.00
Four to five years	13,099,670.06	10,479,736.05	80.00	6,785,006.70	5,428,005.36	80.00
Over five years	172,316,701.83	172,316,701.83	100.00	141,410,548.79	141,410,548.78	100.00
Total	260,950,334.75	204,569,695.20		224,146,968.59	163,349,806.41	

Note: At the end of the period, the balance between the 3rd and 4th year of the account balance and the balance of the account aging over 5 years are not correlated with the balance of the previous balance. The main reason is that the partial long-age advance payment was reclassified to other receivables due to the termination of the contract.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

7. Other receivables (Continued)

4. Other receivables with individual insignificance but individually accruing bad debt :

Debtor	Closing balance			Reason
	Amount	Bad debt provision	Proportion (%)	
Petty cash	92,760,822.04	2,885,242.92	3.11	Individual withdrawal based on recyclability
SRB Karachi	9,855,736.75			Prepaid project taxes
Chinese building Third Engineering Bureau Ltd.	9,169,018.20			Advance contractor's onsite expenses
Siemens Pakistan Engineering Co. Ltd	8,453,825.32			Guarantee deposit
PT THE SECOND CONSTRUCTION ENGINEERING T	6,011,884.37			Advance Indonesia project's fund
Pakistan Federal Government Revenue Authority	4,845,678.00			Prepaid project taxes
BUT BEIJING ELECTRIC POWER CONSTRUCTION COMPANY	4,652,464.07			Advance Indonesia project's fund
Harbin Sanlian Industrial Development Corporation	4,200,000.00			Related parties are not accrued
Owner of Turkey's speed horse project – Kolin company	4,081,061.96			Turkish project owners withhold tax
Daqing Longjiang Wind Power Co., Ltd.	3,920,000.00	3,920,000.00	100.00	Estimated uncollectible
Bangladesh Power Agency	3,161,972.96			Bangladesh project owners withhold tax
Bailukai project local power supply company LESCO	3,137,674.32			Electricity deposit
Jiamusi Motor Co., Ltd.	3,000,000.00			Related parties are not accrued
Qin City Development Zone Construction Engineering Trading Center	2,860,000.00			Margin
Beijing Zhongda Tongda Electric Package Co., Ltd.	2,716,179.76			Advance project service fee

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

7. Other receivables (Continued)

4. *Other receivables with individual insignificance but individually accruing bad debt : (Continued)*

Debtor	Closing balance			Reason
	Amount	Bad debt provision	Proportion (%)	
Deposit of Gas Engine Division	2,696,105.38	2,696,105.38	100.00	Estimated uncollectible
Changjiang Water Resources Commission	2,057,064.89			Advance project service fee
KOLBEN S.A	1,960,260.00			Ecuadorian Project Advance Subcontractor Payments
China Energy Construction Group Tianjin Power Construction Co., Ltd.	1,572,931.31			JVC apartment building receivables
CCCC Second Navigation Engineering Survey & Design Institute Co., Ltd.	1,488,485.30			JVC apartment building receivables
China Construction Steel Structure Co., Ltd.	1,424,672.12			JVC apartment building receivables
Shenzhen Hadong Huihua Industry and Trade Co., Ltd.	1,351,930.00	1,351,930.00	100.00	Estimated uncollectible
Beijing Guodian Engineering Tender Co., Ltd.	1,055,189.00			Margin
Others	218,152,351.78	15,465,888.77	7.21	
Total	394,585,307.53	26,319,167.07		

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

The bad debt provision of this year was CNY48,529,490.56.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

7. Other receivables (Continued)

6. Other receivables actually written off in the current period

Debtor	Nature of accounts receivable	Write-off amount	Reasons for writing off	Fulfilment of verification procedures	Is it due to a related transaction?
Harbin Hongfa Coal Sales Co., Ltd.	account current	7,204.65	Debtor is logged out	Board Resolution	No
Total	-	7,204.65	-	-	-

7. The top five other receivables by year-end balance of arrears

Debtor	Nature	Closing balance	Aging	Proportion (%)	Closing balance of bad debt provision
Harbin Electric	account current	162,095,125.59	1-2 years	13.41	
CELECT	advance project funds	95,034,684.33	less than 1 year	7.86	
Harbin Electric Industrial Development Corporation	account current	62,982,138.98	4-5 years, over 5 years	5.21	
ACWA Power Harbin Holdings Limited	advance project funds	58,561,306.26	1-2 years	4.84	
National Energy Board	National allocation of special funds is not accrued	51,989,900.16	less than 1 year, 1-2 years	4.30	
Total	/	430,663,155.32	/	35.62	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

8. Inventory

1. Classification of inventory

Items	Closing balance			Opening balance		
	Book balance	Inventory impairment provision	Book value	Book balance	Inventory impairment provision	Book value
Raw material	3,727,697,142.78	247,411,966.28	3,480,285,176.50	3,420,691,404.34	274,655,605.27	3,146,035,799.07
Semi-manufactured and WIP	8,463,181,236.95	292,317,379.53	8,170,863,857.42	9,919,480,454.52	257,844,179.41	9,661,636,275.11
Finished Goods	515,370,202.24	88,636,888.47	426,733,313.77	436,751,287.73	19,180,133.09	417,571,154.64
Revolving materials (Wrapping, Low-value consumption goods)	15,283,495.99	23,010.35	15,260,485.64	13,795,954.21	23,010.35	13,772,943.86
Project construction (finished but unsettled)	3,706,370,012.34	260,908,578.76	3,445,461,433.58	3,218,431,700.45	38,638,132.04	3,179,793,568.41
Goods sold	7,438,035.50		7,438,035.50	5,458,981.96		5,458,981.96
Total	16,435,340,125.80	889,297,823.39	15,546,042,302.41	17,014,609,783.21	590,341,060.16	16,424,268,723.05

Notes:

- At the end of the accounting period, the company has performed an impairment test on the inventory that shows signs of impairment, and has accrued provisions for falling inventory prices in accordance with the requirements of the accounting standards.
- At the end of December 31, 2017, inventory depreciation reserves were RMB889,297,823.39, which represented 5.41% of the original inventory value of RMB16,435,340,125.80.

NOTES TO 2017 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)

2. Inventory falling price reserves

Items	Opening balance	Increase		Decrease			Closing balance
		Provision	Others	Back	Reseller	Others	
Raw material	274,655,605.27	59,288,865.89		64,017.10	32,475,288.47	53,993,199.31	247,411,966.28
WIP	257,844,179.41	196,038,292.85			151,420,374.08	10,144,718.65	292,317,379.53
Inventory	19,180,133.09	7,681,225.91	64,137,917.96		2,362,388.49		88,636,888.47
Inventory material	23,010.35						23,010.35
Project construction	38,638,132.04	243,474,518.81		21,204,072.09			260,908,578.76
Total	590,341,060.16	506,482,903.46	64,137,917.96	21,268,089.19	186,258,051.04	64,137,917.96	889,297,823.39

Reason for inventory depreciation reserve: At the end of the accounting period, if the inventory shows signs of impairment, the company will conduct an impairment test on the inventory and make provision for falling prices based on the amount of the inventory's book value exceeding its realisable value;

Reasons for the reversal of inventory depreciation reserve: When the factors affecting inventory depreciation have disappeared and the value of inventory has rebounded, it will be transferred back within the original provision for impairment;

Reasons for the write-off of inventory depreciation provision: refer to the derecognition of the provision for depreciation provision, while at the same time carrying forward the provision for impairment;

9. Other current assets

Items	Closing balance	Opening balance
Bank financial products	2,538,636,621.75	1,800,000,000.00
Entrust loans	200,000,000.00	210,000,000.00
Deductible input tax and prepay VAT	270,993,438.53	128,468,589.99
Others		18,646.93
Total	3,009,630,060.28	2,138,487,236.92

NOTES TO 2017 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

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	497,038.49	6,648,294.00
– loan		
– discount	497,038.49	6,648,294.00
– others		
Total loan and advance	497,038.49	6,648,294.00
less: Loans impairment reserve	4,970.38	97,206.82
Include: individual provision amount		
Combination provision	4,970.38	97,206.82
Book value of loans and advance	492,068.11	6,551,087.18

NOTES TO 2017 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)

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	497,038.49	100.00	6,648,294.00	100.00
Total loan and advance	497,038.49	100.00	6,648,294.00	100.00
less: Loans impairment reserve	4,970.38	1.00	97,206.82	1.46
Include: individual provision				
Combination provision	4,970.38	1.00	97,206.82	1.46
Book value of loans and advance	492,068.11		6,551,087.18	

3. Loan and advance distributed by area

Area	Closing balance	Proportion (%)	Opening balance	Proportion (%)
South China				
North China				
Other China	497,038.49	100.00	6,648,294.00	100.00
Total loan and advance	497,038.49	100.00	6,648,294.00	100.00
Less: loan impairment reserves	4,970.38	1.00	97,206.82	1.46
Include: individual provision				
Combination provision	4,970.38	1.00	97,206.82	1.46
Book value of loan and advance	492,068.11		6,551,087.18	

NOTES TO 2017 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)

4. Loan and advance distributed by guarantee

Items	Closing balance	Opening balance
Loan on credit	497,038.49	6,648,294.00
Loan on guarantee		
Attached to the collateral loan		
Among: mortgage loans		
Hypothecated loan		
Total loan and advance	497,038.49	6,648,294.00
less: loan impairment reserves	4,970.38	97,206.82
Among: individual provision		
Combination provision	4,970.38	97,206.82
Book value of loan and advance	492,068.11	6,551,087.18

5. Loan loss reserves

Items	Current period		Preceding period	
	Individual	Combination	Individual	Combination
Opening balance		97,206.82		
Provision this year		4,970.38		97,206.82
Roll out this year				
Cancel after verification this year				
Switch back this year		97,206.82		
– To recover the original written off loans and advances to turn it back		97,206.82		
– Loans and advances for return discount value rising				
– Other factors lead to return				
Closing balance		4,970.38	-	97,206.82

NOTES TO 2017 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

1. Available-for-sale financial assets

Items	Closing balance			Opening balance		
	Book balance	Depreciation		Book balance	Depreciation	
		provision	Book value		provision	Book value
1. Available-for sale bond	49,300,000.00		49,300,000.00	50,000,000.00		50,000,000.00
2. Available-for sale equity investment	44,745,000.00	8,150,000.00	36,595,000.00	44,745,000.00	4,150,000.00	40,595,000.00
Including: fair value						
Cost measurement	44,745,000.00	8,150,000.00	36,595,000.00	44,745,000.00	4,150,000.00	40,595,000.00
3. Others						
Total	94,045,000.00	8,150,000.00	85,895,000.00	94,745,000.00	4,150,000.00	90,595,000.00

2. Available-for-sale debt instruments

Items	Purchase date	Due date	Acquisition cost	Closing fair value	Change in fair value	Current interest
2016 Book-entry interest-bearing (Three) treasury bonds	2016-1-27	2019-1-28	50,000,000.00	49,300,000.00	-700,000.00	1,180,684.93
Total			50,000,000.00	49,300,000.00	-700,000.00	1,180,684.93

Note 1: On January 27, 2016, the Ministry of Finance issued 2016 book-entry interest-bearing (three) treasury bonds, with a nominal value of RMB100/100, an annual coupon rate of 2.55%, and interest accrual on January 28, 2016. The due date is January 28, 2019. The interest payment day is January 28 of each year. The principal is repaid and the last interest is paid on January 28, 2019.

NOTES TO 2017 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)

3. 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			Decreased
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				12.00	
Beijing Tsinghua Engineering Company	5,500,000.00			5,500,000.00				15.00	
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		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				11.20	
Harbin Power Equipment Logistics Co., Ltd	1,000,000.00			1,000,000.00				3.10	
Harbin Xin Embellish Precision Casting Industry Co., Ltd	695,000.00			695,000.00				6.32	37,111.18
Beijing Full Three-Dimensional Power Engineering Co., Ltd	400,000.00			400,000.00				2.62	
Tongxiang Sanlia Light Alloy Co., Ltd.	150,000.00			150,000.00	150,000.00		150,000.00	15.00	
Total	44,745,000.00			44,745,000.00	4,150,000.00	4,000,000.00	8,150,000.00	-	37,111.18

NOTES TO 2017 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)

4. Changes in impairment of available-for-sale financial assets during the 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	4,150,000.00		4,150,000.00
Provision for current period	4,000,000.00		4,000,000.00
Among: from other comprehensive income			
Decrease this current period			
Among: FV recovered after the reporting date			
Provision at the end of the period	8,150,000.00		8,150,000.00

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	2,831,982.28		2,831,982.28	4,566,613.71		4,566,613.71
Among: unrealized financing income	233,855.62		233,855.62	474,590.51		474,590.51
Instalment for sale goods						
Instalment for offer labor service						
Other						
Total	2,831,982.28		2,831,982.28	4,566,613.71		4,566,613.71

NOTES TO 2017 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	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	128,304,838.06			24,466,436.81			17,767,425.00	135,003,849.87			
Huludao Binhai Hydro Power Company Limited	51,265,399.11							51,265,399.11	1,366,428.73	1,366,428.73	
Harbin Boiler & Container Company Limited	16,654,808.75		16,654,808.75								
Harbin HE Liling Hydropower Equipment New Technology Development Co., Ltd.	6,426,112.01			144,379.73				6,570,491.74			
Harbin Huitong Power Engineering Company Limited	5,646,706.53			2,285,956.32			2,108,933.24	5,823,729.61			
Heilongjiang Harbin Hydropower Development Company Limited	4,777,074.83			-926,852.68				3,850,222.15			
Harbin HE Petrol Station Co., Ltd	1,277,634.63			390,841.13			30,000.00	1,638,475.76			
ACWA Power Harbin Holdings Limited		53,375.27						53,375.27	53,375.27	53,375.27	
Subtotal	214,352,573.92	53,375.27	16,654,808.75	26,360,761.31			19,906,358.24	204,205,543.51	1,419,804.00	1,419,804.00	
Total	217,352,573.92	53,375.27	16,654,808.75	26,360,761.31			19,906,358.24	207,205,543.51	1,419,804.00	4,419,804.00	

Note 1: Huludao Binhai Electric Power Large-scale Co., Ltd. entered the write-off clean-up phase at the beginning of 2017, and accrued the long-term equity investment with a provision of 1,364,428.73 yuan in accordance with the expected recoverable amount.

NOTES TO 2017 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

1. Investment properties measured by cost

Item	Housing and buildings	Total
1. Original carrying value		–
(1) Opening balance	57,508,519.92	57,508,519.92
(2) Increase in the period	241,189,165.38	241,189,165.38
– acquired		
– inventory/fixed assets/transfer from construction in progress	241,189,165.38	241,189,165.38
– increase in mergers of corporates		
– other increase		
(3) Decrease in the period	966,420.07	966,420.07
– Disposal		
– Transfer	966,420.07	966,420.07
(4) Closing balance	297,731,265.23	297,731,265.23
2. Accumulated depreciation and accumulated amortisation		
(1) Opening balance	29,535,695.50	29,535,695.50
(2) Increase in the period	38,257,368.52	38,257,368.52
– provision or amortization	2,147,928.40	2,147,928.40
– inventory/fixed assets/transfer from construction in progress	36,109,440.12	36,109,440.12
– other increase		
(3) Decrease in the period	848,521.57	848,521.57
– Disposal		
– Transfer	848,521.57	848,521.57
(4) closing balance	66,944,542.45	66,944,542.45

NOTES TO 2017 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 (Continued)

1. Investment properties measured by cost (Continued)

Item	Housing and buildings	Total
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	230,786,722.78	230,786,722.78
(2) Carrying value in the beginning of the year	27,972,824.42	27,972,824.42

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

Items	Closing balance	Opening balance
In China	138,538,405.66	27,972,824.42
Medium-term (10 to 50 years)	138,538,405.66	27,972,824.42
Short-term (10 years)		
In Dubai	92,248,317.12	
Medium-term (10 to 50 years)	92,248,317.12	
Short-term (10 years)		
Total	230,786,722.78	27,972,824.42

NOTES TO 2017 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

1. Fixed assets details

Item	Housing and buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office facilities	Other	Total
1. Original carrying value							
(1) Opening 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) Increase in the period	382,627,789.31	504,917,979.45	13,239,379.51	31,382,371.25	39,253,330.19	64,615.38	971,485,465.09
– acquired	199,862,674.65	31,972,687.81	5,053,314.91	10,003,992.65	6,658,661.21	–	253,551,331.23
– transfer from construction in progress	181,798,694.59	468,743,162.14	8,186,064.60	21,378,378.60	32,594,668.98	64,615.38	712,765,584.29
– transfer from development expenditures		4,202,129.50					4,202,129.50
– transfer from R&D expenditures							
– business combination							
– others	966,420.07						966,420.07
(3) Decrease in the period	172,983,363.32	114,944,590.57	20,885,339.17	24,303,841.28	4,868,392.95		337,985,527.29
– Disposal or retired	42,679,566.76	114,881,813.34	20,885,339.17	24,303,841.28	4,868,392.95		207,618,953.50
Roll out	130,303,796.56						130,303,796.56
Other decrease		62,777.23					62,777.23
(4) closing balance	4,534,069,928.59	7,636,725,613.13	381,045,726.78	591,310,339.72	283,259,590.94	9,361,706.93	13,435,772,906.09
2. accumulated depreciation							
(1) opening 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
(2) Increase in the period	147,485,426.69	449,135,760.49	25,221,481.08	46,889,776.90	26,337,223.88	2,984.64	695,072,653.68
– provision	146,636,905.12	449,135,760.49	25,221,481.08	46,889,776.90	26,337,223.88	2,984.64	694,224,132.11
– others	848,521.57						848,521.57
(3) Decrease in the period	86,956,527.67	88,915,330.57	17,941,502.33	22,735,813.32	4,512,821.28		221,061,995.17
– Disposal or retired	50,847,087.55	88,915,330.57	17,941,502.33	22,735,813.32	4,512,821.28		184,952,555.05
– roll out	36,109,440.12						36,109,440.12
Others							
(4) closing balance	1,417,499,822.57	5,028,958,955.08	316,405,948.69	458,081,554.78	198,388,315.43	7,199,137.47	7,426,533,734.02

NOTES TO 2017 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)

1. Fixed assets details (Continued)

Item	Housing and buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office facilities	Other	Total
3. provision for diminution in value							
(1) opening balance	751,795.25	18,334,132.52	987,459.09	1,521.85			20,074,908.71
(2) Increase in the period	11,327,211.29	17,759,590.75	221,895.67	1,315.52			29,310,013.23
– provision	10,658,640.68	16,388,670.72		1,315.52			27,048,626.92
– Construction in progress	668,570.61	1,370,920.03	221,895.67				2,261,386.31
– others							
(3) Decrease in the period	709,410.65	117,625.98	36,930.26				863,966.89
– Disposal or retired	709,410.65	117,625.98	36,930.26				863,966.89
–others							
(4) closing balance	11,369,595.89	35,976,097.29	1,172,424.50	2,837.37			48,520,955.05
4. Carrying value							
(1) carrying value at the end of the year	3,105,200,510.13	2,571,790,560.76	63,467,353.59	133,225,947.57	84,871,275.51	2,162,569.46	5,960,718,217.02
(2) Carrying value in the beginning 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. 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.

NOTES TO 2017 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)

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

Items	Closing balance	Opening balance
In China	3,004,776,277.22	2,966,702,783.80
Medium-term (10 to 50 years)	3,004,776,277.22	2,966,702,783.80
Short-term (10 years)		
In Dubai	100,424,232.91	
Medium-term (10 to 50 years)	100,424,232.91	
Short-term (10 years)		
Total	3,105,200,510.13	2,966,702,783.80

4. Other explanatory information

For details of restricted fixed properties of which ownership were charged and pledged, please refer to note V.(65) Fixed assets with restricted ownership.

NOTES TO 2017 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

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	447,354,691.76		447,354,691.76	316,202,523.50		316,202,523.50
Key Project Four Projects	181,332,226.29		181,332,226.29	115,328,414.63		115,328,414.63
Major Special Project-Development of Alternative Materials for CPA1400 Shielded Electric Pump (Motor)	40,912,277.76		40,912,277.76	65,628,052.42		65,628,052.42
Rotor Shaft	35,086,357.66		35,086,357.66	20,169,238.65		20,169,238.65
4050 Project	29,405,143.51		29,405,143.51	29,398,083.51		29,398,083.51
General upgrading	18,113,041.24		18,113,041.24	13,201,548.57		13,201,548.57
Equipment technical improvement measures and equipment update (1813)	17,760,396.32		17,760,396.32	6,197,150.27		6,197,150.27
Nuclear power base project	13,445,465.12		13,445,465.12	12,300,674.12		12,300,674.12
Harbin Electric International Beijing Branch Renovation Project	11,684,618.51		11,684,618.51			
ERP project	10,679,437.44		10,679,437.44	10,674,909.14		10,674,909.14
813-16-1-1	8,401,709.40		8,401,709.40	8,401,709.40		8,401,709.40
FX-030 CAP1400 The relief valve experiment system (infrastructure)	5,214,776.45		5,214,776.45	5,214,256.45		5,214,256.45
PMS project management platform system upgrade	3,271,985.13		3,271,985.13			
Jiangbei Research Base Information Construction	2,551,577.19		2,551,577.19	27,568,038.13		27,568,038.13
HQC-D15-2017-EQ006 CNC Gantry Milling Machine	2,051,282.07		2,051,282.07			
Jiangbei Research Basement Underground Garage, Stopping Project	1,298,349.11		1,298,349.11	673,665.51		673,665.51
Dining hall	1,173,273.26		1,173,273.26			
Desulfurization test bench	708,240.47		708,240.47	5,295,694.35		5,295,694.35
Production base construction project				74,388,033.09		74,388,033.09
Harbin Power International Trade Building Project				58,005,389.90		58,005,389.90
New integrated service center				12,079,014.43		12,079,014.43
813-14-1-1 Removable CNC Seat Processing				5,658,201.70	-	5,658,201.70
Others	30,174,643.63	569,610.88	29,605,032.75	51,088,801.06	2,464,997.19	48,623,803.87
Total	860,619,492.32	569,610.88	860,049,881.44	837,473,398.83	2,464,997.19	835,008,401.64

NOTES TO 2017 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)

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: the amount of interest capitalization in the current period	Current interest capitalization rate (%)	Sources of funds
Nuclear power capacity building	913,800,000.00	316,202,523.50	400,201,981.77	269,049,813.51		447,354,691.76	87.57	87.57	44,513,550.00	22,076,250.00	5.52	The country allocated 843.1 million yuan
construction project	457,000,000.00	115,328,414.63	66,003,811.66			181,332,226.29	42.88	42.88				Self-raised
Four projects of key projects	183,400,000.00	65,628,052.42	68,114,532.76	92,830,307.42		40,912,277.76	89.14	89.14				The country allocated 146.7 million yuan and raised 36.7 million yuan
Major projects engineering - CPA1400 shielding electric pump (motor) rotor shaft developed alternative materials	20,940,000.00	20,169,238.65	17,264,569.01		2,347,450.00	35,086,357.66	96.32	96.32				Self-raised
4050 project	40,500,000.00	29,398,083.51	7,060.00			29,405,143.51	72.61	72.61				Government funding
General upgrading	18,113,041.24	13,201,548.57	41,453,725.28	36,542,232.61		18,113,041.24	100	100				Self-raised
Equipment technical improvement measures and equipment update (1813)	31,250,000.00	6,197,150.27	12,812,025.98	1,039,534.86	209,245.07	17,760,396.32	60.83	60.83				Self-raised
Nuclear power base project	768,000,000.00	12,300,674.12	1,213,855.93		69,064.93	13,445,465.12	2.12	2.12				Self-raised
Beijing branch decoration	14,589,100.58		11,684,618.51			11,684,618.51	80.09	80.09				Self-raised
ERP project	39,000,000.00	10,674,909.14	2,128,509.93	2,123,981.63		10,679,437.44	35.46	35.46				Self-raised
813-16-1-1	18,000,000.00	8,401,709.40	-	-		8,401,709.40	46.68	46.68				Self-raised
CAP1400 Safety Valve Experimental System	8,500,000.00	5,214,256.45	520.00			5,214,776.45	61.35	61.35				Self-raised
PMS project management platform system upgrade	4,210,000.00		3,271,985.13			3,271,985.13	77.72	77.72				Self-raised
Jiangbei Research Base Information Construction	590,000,000.00	27,568,038.13	1,662,784.90	26,679,245.84		2,551,577.19	5.50	5.50				Self-raised
HQC-D15-2017-EQ006 CNC Gantry Milling Machine	2,400,000.00		2,051,282.07			2,051,282.07	85.47	85.47				Self-raised

NOTES TO 2017 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)

2. Significant changes in construction in progress (Continued)

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: the amount of interest capitalization in the current period	Current interest capitalization rate (%)	Sources of funds
Jiangbei Research Basement												
Stopping Project		673,665.51	624,683.60			1,298,349.11						Self-raised
Dining hall	16,850,000.00	-	11,783,726.17	10,610,452.91		1,173,273.26	69.93	69.93				Self-raised
Desulfurization test bench	17,000,000.00	5,295,694.35	1,328,599.83	5,916,053.71		708,240.47	38.97	38.97				Self-raised
New Production Base Construction Project (Phase I)		74,788,089.77	32,561,572.56	107,349,662.33		-	100	100				Self-raised
12-47101 New Integrated Service Center	18,960,000.00	12,079,014.43	1,832,289.19	13,911,303.62		-	100	100				Self-raised
Harbin International Trade Building (office building)	149,000,000.00	58,005,389.90	19,836,252.94	77,841,642.84		-	100	100	6,557,963.23			loan
Others		56,346,946.08	150,446,936.25	146,712,995.85	23,906,242.85	30,174,643.63						
Total	3,311,512,141.82	837,473,398.83	846,285,323.47	790,607,227.13	32,532,002.85	860,619,492.32			51,071,513.23	22,076,250.00		

NOTES TO 2017 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)

3. Provision for impairment loss of projects under construction in current situation

Items	Opening balance	Increase	Decrease	Closing balance	Reason
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
Dryer	144,000.00		144,000.00		Idle cannot be used
Others	774,566.02	366,000.00	570,955.14	569,610.88	Idle cannot be used
Total	2,464,997.19	366,000.00	2,261,386.31	569,610.88	

17. Construction materials

Item	Closing balance	Opening balance
Engineering machinery and equipment	3,719,461.29	835,204.92
Total	3,719,461.29	835,204.92

18. Disposal of fixed assets

Items	Closing balance	Opening balance
Equipment to be disposed	201,003.47	
Total	201,003.47	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

19. Intangible assets

Items	Software	Land use rights	Patent	Non-patented technology	Franchise	Others	Total
1. Original carrying value							
(1) opening 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) Increase in the period	1,921,897.43	96,600.00	18,761,310.59	5,119,962.46	153,028,917.61	307,296.61	179,235,984.70
– acquired	1,859,815.37	96,600.00	18,761,310.59	1,375,962.46	–	307,296.61	22,400,985.03
– internal research and development				3,744,000.00	153,028,917.61		156,772,917.61
– other turn in	62,082.06						62,082.06
– Increase in mergers of							
(3) Decrease in the period	1,141,917.23	3,154,270.44		41,080,977.00		19,498.00	45,396,662.67
– disposal	200,177.23			41,080,977.00		–	41,281,154.23
– roll out							
– others	941,740.00	3,154,270.44				19,498.00	4,115,508.44
(4) closing balance	61,115,654.00	732,718,657.25	22,223,425.59	221,535,036.33	323,861,418.15	5,558,308.09	1,367,012,499.41
2. accumulated amortization							
(1) opening 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
(2) Increase in the period	6,674,963.13	13,913,455.62	15,559,216.68	10,389,508.60	4,194,618.24	221,349.34	50,953,111.61
– Provision	6,674,963.13	13,913,455.62	15,559,216.68	10,389,508.60	4,194,618.24	221,349.34	50,953,111.61
– Increase in mergers of corporates							
– Others							
(3) Decrease in the period	1,009,919.90			11,297,613.89		1,137.38	12,308,671.17
– disposal	68,179.90			11,297,613.89		–	11,365,793.79
– roll out							
– other	941,740.00					1,137.38	942,877.38
(4) closing balance	39,966,414.79	246,223,562.25	19,008,276.49	184,242,643.14	90,508,924.16	4,806,560.43	584,756,381.26
3. Provision for impairment							
(1) opening balance				36,815,874.33			36,815,874.33
(2) Increase in the period	2,137,376.41					90,863.26	2,228,239.67
– provision	2,137,376.41					90,863.26	2,228,239.67
– others							
(3) Decrease in the period				28,413,362.62			28,413,362.62
– disposal				28,413,362.62			28,413,362.62
– others							
(4) Closing balance	2,137,376.41			8,402,511.71		90,863.26	10,630,751.38
4. Carrying value							
(1) Carrying value at the end of the period	19,011,862.80	486,495,095.00	3,215,149.10	28,889,881.48	233,352,493.99	660,884.40	771,625,366.77
(2) Carrying value in the beginning of the year	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

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

20. 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)	186,101,361.65	48,882,304.23			3,629,479.90	231,354,185.98
Development of AP1000MSR Safety Valve	1,380,000.00					1,380,000.00
HRIS (Human Resource Information System)	991,501.38	48,113.21				1,039,614.59
Industrial big data application technology national engineering laboratory and multi-energy complementary simulation laboratory construction project		592,901.37				592,901.37
Research and Development of Test and Evaluation System for Ultra-super critical Main Steam Safety Valve	418,341.03					418,341.03
Archives and e-business document information platform construction project		68,119.66				68,119.66
Heilongjiang province power station valve engineering technology research center	64,102.56					64,102.56
Introduction of key technology of high-end valves for 600-1000MW ultra-supercritical generating unit	3,744,000.00		3,744,000.00			
Ultra-supercritical 003	572,649.60				572,649.60	
Others	3,931,119.57	6,956,473.00		6,599,008.09		4,288,584.48
Total	197,203,075.79	56,547,911.47	3,744,000.00	6,599,008.09	4,202,129.50	239,205,849.67

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

21. Long-term deferred expenses

Items	Opening balance	Increase in the period	Amortised in the period	Other decreased amount	Closing balance
Jiangbei office building decoration	38,407,562.15	1,203,590.08	11,258,664.57		28,352,487.66
Improvement of the rented fixed assets	1,660,799.89	-127,521.57	192,206.04		1,341,072.28
Organization costs	824,342.67	461,262.12	566,634.84		718,969.95
Total	40,892,704.71	1,537,330.63	12,017,505.45		30,412,529.89

22. Deferred tax assets and deferred tax liabilities

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	2,288,839,814.82	355,361,036.47	1,789,708,498.73	277,332,886.34
Changes in fair value of hedging instruments included in other comprehensive interests	700,000.00	175,000.00	12,183,688.27	1,827,553.24
Estimate liabilities	433,726,050.43	65,058,907.57	427,634,077.58	64,145,111.63
dismissal welfare	66,578,651.89	9,986,797.79	53,784,785.90	8,067,717.89
Total	2,789,844,517.14	430,581,741.83	2,283,311,050.48	351,373,269.10

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

22. Deferred tax assets and deferred tax liabilities (Continued)

2. Breakdown of unrecognized deferred income tax

Items	Closing balance	Opening balance
Deductible temporary difference	4,756,702,688.95	2,709,770,735.70
Deductible loss	1,848,661,159.85	2,772,792,845.12
Total	6,605,363,848.80	5,482,563,580.82

3. Non-offsetting deferred income tax liabilities

Items	Closing balance		Opening balance	
	Taxable temporary differences	Deferred income tax liabilities	Deductible temporary differences	Deferred income tax liabilities
Change in fair value of hedging instruments included in other comprehensive equity	29,448,750.79	7,280,974.79		
Total	29,448,750.79	7,280,974.79		

23. Short-term borrowings

1. short-term liabilities shown as classification

Items	Closing balance	Opening balance
Pledged loan		
Mortgage loan	15,900,000.00	17,000,000.00
Guaranteed loan	330,000,000.00	
Debt of honour	2,737,668,542.78	2,072,338,408.88
Total	3,083,568,542.78	2,089,338,408.88

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

24. Deposits and placements from other financial institutions

Items	Closing balance	Opening balance
Current deposit	632,131,884.34	2,097,188,535.43
Fixed time deposit	1,600,000.00	20,209,018.66
Call deposits	169,264,275.35	555,764,275.35
L/G (letter of guarantee)	31,590.00	900,317.21
Other deposits (including outward remittance, should be turned in to the remittance)		
Total	803,027,749.69	2,674,062,146.65

25. Notes payable

Items	Closing balance	Opening balance
Bank acceptance	4,570,861,423.55	5,033,282,115.86
Trade acceptance	908,942,869.88	1,059,901,292.64
Total	5,479,804,293.43	6,093,183,408.50

26. Account payable

1. Account payable shown as aging

Items	Closing balance	Opening balance
Within 1 year	11,359,112,006.32	10,083,783,935.67
1–2 years	1,328,277,162.52	1,241,059,335.61
2–3 years	586,962,812.92	485,773,094.77
Over 3 years	777,356,922.84	423,637,992.70
Total	14,051,708,904.60	12,234,254,358.75

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

26. Account payable (Continued)

2. Significant accounts payable aging for more than a year

Items	Closing balance	Reason for outstanding or pay back
China First Heavy Machinery Co., Ltd.	89,170,291.56	The contract has not been completed
Howden Hua Engineering Co., Ltd.	86,988,000.00	The amount owed is a warranty money which is in warranty period
INNOVIA CONSULTANTS LTD	78,410,400.00	The contract has not been completed
Baoyin Special Steel Tube Co., Ltd.	63,422,977.25	The contract has not been completed
Shanghai Heavy Machinery Factory Co., Ltd.	49,662,232.84	Not yet settled
Beijing Electric Power Equipment Factory Co., Ltd.	42,157,646.43	The contract has not been completed
CCCC Second Navigation Engineering Survey & Design Institute Co., Ltd.	32,830,600.00	The contract has not been completed
Huahai Wind Energy Development Co., Ltd.	24,120,000.00	The contract has not been completed
Beijing Longyuan Environmental Protection Engineering Co., Ltd.	23,356,919.31	The contract has not been completed
Shaanxi Diesel Engine Heavy Industry Co., Ltd.	18,876,004.00	The contract has not been completed
Shanghai Blower Factory Co., Ltd.	18,774,914.00	The contract has not been completed
Nanjing Daji Steel Tower Manufacturing Co., Ltd.	17,671,576.43	The contract has not been completed
Geling Power Equipment (China) Co., Ltd.	17,356,100.95	The amount owed is a warranty money which is in warranty period
Jiangsu Zhongtian Technology Co., Ltd.	17,350,866.81	The contract has not been completed
Wuhan Yiheng Heavy Industry Co., Ltd.	15,947,553.79	The amount owed is a warranty money which is in warranty period
Changzhou Xidian Transformer Co., Ltd.	15,676,205.00	The contract has not been completed
Zhejiang Jiuli Special Material Technology Co., Ltd.	15,339,920.08	The contract has not been completed
Zhongjian Jianzhong Heavy Industry Co., Ltd.	15,321,935.00	The amount owed is a warranty money which is in warranty period
Zhejiang Feida Environmental Protection Technology Co., Ltd.	15,093,747.80	The contract has not been completed
Shenyang Simai Te Machinery Manufacturing Co., Ltd.	14,871,889.27	Not yet settled
Hebei Hongrun Nuclear Equipment Technology Co., Ltd.	14,608,559.59	The amount owed is a warranty money which is in warranty period
Xiamen ABB High Voltage Switchgear Co., Ltd.	14,492,068.00	The contract has not been completed
China National Petroleum Seventh Construction Co., Ltd.	14,410,270.71	The amount owed is a warranty money which is in warranty period
Jilin Feite Power Station Equipment Manufacturing Co., Ltd.	14,331,122.43	The amount owed is a warranty money which is in warranty period

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

26. Account payable (Continued)

2. Significant accounts payable aging for more than a year (Continued)

Items	Closing balance	Reason for outstanding or pay back
Shanghai Clyde Bergemann Machinery Co., Ltd.	14,051,474.92	The amount owed is a warranty money which is in warranty period
Changshu Style Electric Equipment Co., Ltd.	13,925,205.54	The contract has not been completed
Hangzhou Tianming Environmental Protection Engineering Co., Ltd.	12,556,000.00	The contract has not been completed
Henan Weihua Heavy Machinery Co., Ltd.	12,422,004.00	The contract has not been completed
Hubei Electric Power Construction First Engineering Co., Ltd.	11,630,147.35	The contract has not been completed
Chongqing ABB Transformer Co., Ltd.	11,549,619.30	The contract has not been completed
Shanghai Electric Power Station Equipment Co., Ltd.	11,100,000.00	The contract has not been completed
Shandong Taian Construction Engineering Group Co., Ltd.	11,004,997.44	The contract has not been completed
Shenyang Dongguan Electric Power Technology Group Co., Ltd.	10,411,525.00	The contract has not been completed
Aerospace Electric Technology Co., Ltd.	10,355,241.79	The contract has not been completed
Electricas De Medellin Ingenieria Y Servicios S.A.	10,117,113.18	The contract has not been completed
Total	859,365,129.77	

27. Advances from customers

1. Advances received shown in age

Items	Closing balance	Opening balance
Within 1 year	10,215,835,682.83	12,875,987,916.23
1-2 years	5,197,541,260.23	5,067,126,770.33
2-3 years	1,565,790,989.60	1,953,787,685.61
Over 3 years	2,711,956,995.46	2,806,634,392.87
Total	19,691,124,928.12	22,703,536,765.04

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

27. Advances from customers (Continued)

2. Significant advances received aged over 1 year

Items	Closing balance	Reason for being outstanding or carried forward
China Nuclear Power Engineering Co	710,321,350.14	The contract has not been completed
Sanmen Nuclear Power Co., Ltd.	386,858,781.59	The contract has not been completed
Guangdong Datang International Leizhou Power Generation Co., Ltd.	351,400,000.00	Long project cycle has not been completed
Jiangxi Shengneng Co., Ltd. Fengcheng Phase III Power Plant	341,180,500.00	The contract has not been completed
Hebei Fengning Pumped Storage Co., Ltd.	340,582,324.84	The contract has not been completed
Xinjiang Oriental Hope New Energy Co., Ltd.	319,200,000.00	Long project cycle has not been completed
Songhuajiang Hydropower Co., Ltd. Fengman Dam Reconstruction Engineering Construction Bureau	283,872,179.73	The contract has not been completed
China Datang Group Finance Co., Ltd. (Jintan Project)	254,700,000.00	The contract has not been completed
Shenhua North Power Shengli Energy Co., Ltd.	237,800,000.00	Long project cycle has not been completed
Hainan Nuclear Power Co., Ltd.	236,066,461.90	The contract has not been completed
China Zhongyuan Foreign Engineering Co., Ltd. Shanghai Branch	215,069,510.43	The contract has not been completed
Inner Mongolia Energy Power Generation Materials Co., Ltd.	201,000,000.00	Long project cycle has not been completed
National Nuclear Engineering Co., Ltd.	168,226,457.26	The contract has not been completed
China Three Gorges Corporation	161,682,924.29	The contract has not been completed
Jilin Dunhua Pumped Storage Co., Ltd.	133,307,263.21	The contract has not been completed
Indian Coast Energy Corporation	131,093,510.16	The contract has not been completed
Shenhua Guohua Yongzhou Power Generation Co., Ltd.	126,246,000.00	Long project cycle has not been completed
China Machinery Engineering Corporation	104,196,700.70	Long project cycle has not been completed
Total	4,702,803,964.25	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

28. Employee benefits payable

1. Listed salary payable

Items	Opening balance	Increase	Decrease	Closing balance
Short term compensation	167,255,776.13	2,556,146,271.86	2,442,664,965.88	280,737,082.11
Retirement benefit- Established				
Withdrawal and Deposit Scheme	-	404,290,525.23	404,290,525.23	-
Termination benefits	17,024,036.59	106,222,693.45	84,267,897.99	38,978,832.05
Other benefits due within one year	-			
Others	-			
Total	184,279,812.72	3,066,659,490.54	2,931,223,389.10	319,715,914.16

2. Short-term Remuneration

Items	Opening balance	Increase	Decrease	Closing balance
(1) Salary, inducement, allowance and subsidies	471,789.44	1,782,765,902.82	1,691,288,464.67	91,949,227.59
(2) Employee benefits fee	-	192,934,484.89	192,934,484.89	-
(3) Social insurance fee	-2,309,322.11	150,708,778.37	150,667,527.55	-2,268,071.29
Including: medical insurance fee	-2,309,322.11	127,029,122.95	126,986,724.70	-2,266,923.86
Work injury insurance fee	-	14,529,158.30	14,530,305.73	-1,147.43
Maternity insurance fee	-	9,150,497.12	9,150,497.12	-
Others				
(4) Housing provident fund	-	190,763,581.61	190,669,861.61	93,720.00
(5) Staff Union fee and Staff training cost	169,093,235.80	64,058,387.99	42,189,490.98	190,962,132.81
(6) Short-term paid leave				
(7) Short-term profit sharing scheme				
(8) Other short-term Remuneration	73.00	174,915,136.18	174,915,136.18	73.00
Total	167,255,776.13	2,556,146,271.86	2,442,664,965.88	280,737,082.11

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

28. Employee benefits payable (Continued)

3. Established Withdrawal and Deposit Scheme

Items	Opening balance	Increase	Decrease	Closing balance
Basic retirement Insurance		326,701,697.28	326,701,697.28	
Unemployment insurance fee		9,989,303.05	9,989,303.05	
Corporate annuity		67,599,524.90	67,599,524.90	
Items		404,290,525.23	404,290,525.23	

29. Tax payable

Items	Closing balance	Opening balance
VAT	140,541,678.44	270,493,571.46
Business tax	76,081.15	76,081.15
Enterprise income tax	38,661,221.39	24,092,565.36
Individual income tax	20,126,038.31	23,896,592.70
Urban maintenance and construction tax	18,096,722.54	22,629,588.29
Property Tax	2,747,772.58	2,400,829.96
Educational Surtax	12,922,967.38	16,161,346.73
Land use tax	2,354,056.33	2,285,669.32
Others	4,916,411.40	5,454,484.93
Total	240,442,949.52	367,490,729.90

30. Interest payable

Items	Closing balance	Opening balance
Interests for long-term borrowings		
Interests of corporate bond	120,866,666.66	120,866,666.66
Interests payable of short-term borrowings		35,236.11
Interests payable of deposits	4,232,883.09	15,853,214.24
Total	125,099,549.75	136,755,117.01

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

31. Dividend Payable

Items	Closing balance	Opening balance
Ordinary stock dividends	3,569,638.20	6,936,931.73
Total	3,569,638.20	6,936,931.73

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	Has not got
China Great Wall Asset Management		3,369,200.00	
Harbin Development Zone Infrastructure Development Co., LTD	297,135.61	297,135.61	Has not got
New Capital of Atlantis Peak Industry & Trade Co., LTD	217,506.73	217,506.73	Has not got
Harbin Huanya Micro-arc technology Co., LTD	150,471.74	150,471.74	Has not got
H Shares Unclaimed Dividends	90,621.70	88,616.27	Has not got
Kim Kennedy Peng	318.52	318.52	Has not got
Kinkor	264.83	264.83	Has not got
Total	3,523,593.73	6,890,788.30	-

32. Other payables

1. Other payable shown as age

Items	Closing balance	Opening balance
Within one year	190,556,798.03	151,540,527.59
1-2 years	26,634,096.20	44,771,348.54
2-3 years	11,982,973.46	2,331,351.02
Over 3 years	48,473,115.36	108,427,706.83
Total	277,646,983.05	307,070,933.98

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

32. Other payables (Continued)

2. Significant other payables aged over 1 year

Creditors	Amount owed	Age	Reasons for outstanding
Zouping Qixing Development Zone Thermal Power Co., Ltd.	8,700,000.00	1-2 years	Not settled yet
The environmental hydrogen production company	6,818,750.00	Over 3 years	Tight budget
Total	15,518,750.00		

33. Non-current liabilities due within one year

Items	Closing balance	Opening balance
Long-term borrowings due within one year		
Bonds payable due within one year	2,999,707,500.00	
Long-term payables within one year		
Total	2,999,707,500.00	

Note: On February 18, 2013, the China Securities Regulatory Commission approved the "Securities Regulatory Commission Permission [2013] No. 159" text and approved the company to publicly issue corporate bonds with a total value of no more than RMB4 billion to the public. On March 11, 2013, the company publicly issued Harbin Electric Co., Ltd.'s 2012 corporate bonds (the first phase) to the public, raising a total of 3 billion yuan in funds. The annual coupon rate of the bonds was 4.9%, and interest was paid on March 11 each year, interest period is from March 11, 2013 to March 11, 2018. The bonds in this period are calculated on a yearly basis for single interest, excluding compound interest. The interest is paid once a year, the principal is repaid on maturity, and the last period of interest is paid together with the redemption of the principal. This issue of bonds is provided by Harbin Power Group with full and unconditional irrevocable joint and several liability guarantees.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

34. Other current liabilities

Items	Closing balance	Opening balance
Financing lease accounts payable	134,893.80	134,893.80
Total	134,893.80	134,893.80

35. Long-term loans

Items	Closing balance	Opening balance
Debt of honour	200,000,000.00	
Total	200,000,000.00	

36. Bonds payable

1. Payable bond details

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

Note: Bonds payable due within one year are reclassified to non-current liabilities due within one year.

37. Long-term payables

Items	Closing balance	Opening balance
Harbin electric group company	1,000,000.00	1,000,000.00
Total	1,000,000.00	1,000,000.00

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

38. The long-term salary payable

Items	Closing balance	Opening balance
1. Post-employment benefits		
2. Termination benefits	141,039,180.93	80,192,909.50
3. Other long-term employee benefits		
Total	141,039,180.93	80,192,909.50

39. Special payable

Items	Opening balance	Increase	Decrease	Closing balance	Reason
Minkou Science and Technology Major Special Fund	381,055,100.00		465,900.00	380,589,200.00	National allocation
Research on Steam Generator Equipment Manufacturing Technology	53,590,000.00			53,590,000.00	National allocation
Special project fund for the introduction of domestic production of large-scale pumped-storage units ⁱⁱ	22,420,000.00			22,420,000.00	National allocation
High-end CNC machine tools and basic manufacturing equipment technology projects	5,665,000.00			5,665,000.00	National allocation
Others	23,189,794.29		500,000.00	22,689,794.29	National allocation
Total	485,919,894.29		965,900.00	484,953,994.29	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

40. Estimated liabilities

Items	Closing balance	Opening balance
Product quality assurance (note 1)	101,605,443.95	107,289,091.79
Execute the loss of contract (note 2)	520,896,015.25	573,199,094.12
Other (note 3)	8,857,323.34	8,857,323.34
Total	631,358,782.54	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.

41. Deferred income

Items	Opening balance	Increase	Decrease	Closing balance	Reason
Government grants	173,638,642.51	31,769,619.00	50,651,646.80	154,756,614.71	/
Total	173,638,642.51	31,769,619.00	50,651,646.80	154,756,614.71	/

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

41. 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	39,316,172.23		212,133.34		39,104,038.89	Related to an asset
820-00-1104 Three gorges large-scale air-cooled units	28,125,000.00		5,625,000.00		22,500,000.00	Related to income
Development of 600 MW hydro power generators	17,036,970.64		119,094.22		16,917,876.42	Related to income
Nuclear power main pump motor manufacturing base construction	15,566,092.28		671,569.24		14,894,523.04	Related to an asset
Large turbine rotor welding equipment	8,346,800.00				8,346,800.00	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 CAP 1400 half-speed saturated steam turbines	5,877,588.50				5,877,588.50	Related to income
National International Science and Technology Cooperation Project (Ministry of Finance)	5,290,000.00				5,290,000.00	Related to an asset
Smart Manufacturing New Model 820-00-1705		5,000,000.00			5,000,000.00	Related to income
Zhen Runke (2014) Document No. 5 on the Application for Disbursement of Special Funds for Major Science and Technology Projects	8,100,000.00		8,100,000.00			Related to income
Special fund for major equipment autonomy	5,000,000.00		5,000,000.00			Related to an asset
Others	33,580,018.86	26,769,619.00	23,807,184.00	-7,116,666.00	29,425,787.86	
Total	173,638,642.51	31,769,619.00	43,534,980.80	-7,116,666.00	154,756,614.71	

Note: Other changes are shared participation units that allocate research projects.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

42. Paid-in capital

Shareholder's name	Opening balance	Capital increase	Increase(+) Decrease(-)		Subtotal	Closing balance
			Scrip share	Conversion of the accumulation funds into shares		
Harbin Electric Corporation	701,235,000.00	329,717,000.00			329,717,000.00	1,030,952,000.00
Overseas-listed shares	675,571,000.00					675,571,000.00
Total	1,376,806,000.00	329,717,000.00			329,717,000.00	1,706,523,000.00

Note: The reason for the increase in capital reserve for the current period was the resolution passed at the shareholders' meeting on December 1, 2017, agreeing to issue new domestic shares to Harbin Electric Group Co., Ltd., of which 3,297,700 shares were new shares. On December 6, 2017, the company received RMB1,269,999,456.00 in new currency issued by Harbin Electric Group Co., Ltd., including RMB329,717,000.00 in share capital and RMB940,282,456.00 in capital premium.

43. Capital reserve

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Capital surplus (share premium)	2,764,208,480.41	940,282,456.00	14,293,706.24	3,690,197,230.17
Other capital surplus				
Total	2,764,208,480.41	940,282,456.00	14,293,706.24	3,690,197,230.17

Notes:

- The reason for the increase in capital reserve for the current period was the resolution passed at the shareholders' meeting on December 1, 2017, agreeing to issue new domestic shares to Harbin Electric Group Co., Ltd., of which 3,297,700 shares were new shares. On December 6, 2017, the company received RMB1,269,999,456.00 in new currency issued by Harbin Electric Group Co., Ltd., including RMB329,717,000.00 in share capital and RMB940,282,456.00 in capital premium.
- The reason for the reduction of capital reserve in this period was that the subsidiary Harbin Power Station Valve Co., Ltd. cancelled its subsidiary Harbin Group Wannato Valve Co., Ltd.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

44. Other comprehensive income

Items	The amount incurred in current period						
	Opening 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	After tax attributable to minority shareholders	Closing balance
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	-6,938,794.70	23,827,952.07	-12,995,817.33	8,933,528.03	25,453,003.92	2,437,237.45	18,514,209.22
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		27,936,621.75		6,984,155.44	18,515,228.86	2,437,237.45	18,515,228.86
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	-10,356,135.06		-12,995,817.33	1,949,372.59	11,046,444.74		690,309.68
Translation difference of financial statements in foreign currencies	3,417,340.36	-4,108,669.68			-4,108,669.68		-691,329.32
Total other comprehensive income	-6,938,794.70	23,827,952.07	-12,995,817.33	8,933,528.03	25,453,003.92	2,437,237.45	18,514,209.22

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

45. Specialized reserve

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Production safety charges	15,801,148.88	24,255,657.57	20,679,379.49	19,377,426.96
Total	15,801,148.88	24,255,657.57	20,679,379.49	19,377,426.96

46. 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

47. Retained earnings

Items	Current period	Last period
Balance before adjustment at the end of preceding period	8,496,686,529.09	8,104,055,926.70
Add: Increase due to adjustment (or less: decrease)		
Opening balance after adjustment	8,496,686,529.09	8,104,055,926.70
Add: Net profit attributable to owners of the parent company	194,226,740.00	413,282,692.39
Less: Appropriation of statutory surplus reserve		
Appropriation of discretionary surplus reserve		
Appropriation of general risk reserve		
Dividend payable on ordinary shares	41,304,180.00	20,652,090.00
Dividend on ordinary share converted to share capital		
Others		
Closing balance	8,649,609,089.09	8,496,686,529.09

Note: The Company's distribution of common stock dividends to shareholders during the year was the 2016 after-tax profit distribution plan which was reviewed and passed at the 2016 annual general meeting of the company held on May 26, 2017. Based on the company's total share capital of 1,376,806,000 at the end of 2016, the company announced the distribution of the company's 2016 final dividend of RMB0.03 per share (including the applicable tax rate), and distributed 2016 final dividend of RMB41,304,180.00 in total(including tax).

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

48. Operating revenue and operating cost

1. Breakdown of Operating revenue and Operating cost

Items	Current period		Last period	
	Revenue	Cost	Revenue	Cost
1. Main operating revenue	31,345,884,860.70	27,104,569,528.75	30,749,840,369.47	26,480,745,654.15
Main thermal power equipment	13,871,644,397.96	11,571,125,295.18	12,169,545,679.76	9,886,112,064.34
Main hydro power equipment	1,146,212,806.36	963,884,354.15	2,484,169,071.08	2,294,377,165.10
Engineering services for power stations	10,704,840,383.96	10,207,510,174.17	9,912,653,082.76	9,122,676,142.39
Power station auxiliary equipment and ancillary products	1,339,075,625.77	1,143,869,453.69	1,437,705,553.48	1,209,666,608.23
AC and DC motors and other	2,251,536,060.95	1,704,961,907.44	2,736,151,060.34	2,250,117,379.63
Nuclear power	2,032,575,585.70	1,513,218,344.12	2,009,615,922.05	1,717,796,294.46
2. Other operation	194,438,995.68	163,384,698.59	179,580,329.25	146,129,599.77
Selling materials	122,103,672.33	120,804,124.13	130,517,994.05	115,651,562.20
Technical service fees	15,291,425.41	1,228,080.11	16,221,095.31	
Others	57,043,897.94	41,352,494.35	32,841,239.89	30,478,037.57
Total	31,540,323,856.38	27,267,954,227.34	30,929,420,698.72	26,626,875,253.92

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

48. Operating revenue and operating cost (Continued)

2. Construction contract

Top ten contract works with highest revenue recognized in the year are as below: :

Project item	Contracted value	Total Cost of the project	Progress of Completion (%)	Accumulated revenue recognized	Accumulated cost recognized	Accumulated gross profit recognized	Settlement price	Revenue recognized in current period	Cost recognized in current period
1. Fixed-price contract									
Pakistani Lulu 1223MW Combined Cycle Project	3,630,676,471.26	3,805,157,742.83	83.56	3,033,782,184.26	3,179,578,202.54	-145,796,018.28	2,930,167,376.14	2,585,849,566.43	2,731,956,673.73
Dubai Haxiang Coal Power Plant Project	15,459,898,638.51	15,693,757,595.03	10.92	1,687,649,086.59	1,713,177,834.46	-25,528,747.87	2,991,828,263.51	1,687,649,086.59	1,713,177,834.46
Turkey speed horse 2 * 255 mw coal-fired power station project	3,395,452,055.97	3,069,047,579.86	91.52	3,107,651,772.52	2,808,913,509.68	298,738,262.84	2,990,426,984.72	1,518,261,233.01	1,389,340,766.12
Kay 1180 mw combined cycle power plant project in Pakistan	3,481,776,981.97	3,528,355,204.97	88.23	3,072,073,899.44	3,113,171,231.04	-41,097,331.60	2,723,503,473.94	1,228,489,857.32	1,272,999,954.28
Ecuador Minas hydropower project	3,342,895,860.88	3,258,617,882.81	86.26	2,883,492,698.08	2,810,796,764.83	72,695,933.25	3,342,895,860.88	653,846,766.74	638,919,021.72
Bangladesh Baku 250MW coal-fired thermal power project	1,823,343,062.85	1,732,639,491.01	75.53	1,377,147,619.11	1,308,640,375.16	68,507,243.95	1,505,656,759.74	634,510,843.97	597,691,275.95
Ecuador 500KV EHV Transmission and Transformation Project	3,852,092,687.63	4,086,749,279.16	92.87	3,577,295,253.47	3,795,212,105.20	-217,916,851.73	3,287,017,245.17	446,233,127.52	511,711,691.66
CLP Investment Haiyang 3#	882,115,384.62	704,400,000.00	41.00	361,667,307.69	289,601,026.82	72,066,280.87	361,667,307.69	361,667,307.69	289,601,026.82
Indonesia Bantan Thermal Power Project	3,960,198,770.17	3,662,379,918.07	96.25	3,811,748,791.09	3,525,093,823.67	286,654,967.42	3,858,400,695.05	314,662,168.56	288,271,289.58
Sudan New Nile River Power Transmission Project	1,588,527,821.91	1,440,258,268.20	71.53	1,136,325,438.25	1,030,263,420.78	106,062,017.47	874,603,849.18	265,869,292.88	248,707,999.29
Total	41,416,977,735.77	40,981,362,961.94		24,048,834,050.50	23,574,448,294.18	474,385,756.32	24,866,167,816.02	9,697,039,250.71	9,682,377,533.61

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

48. Operating revenue and operating cost (Continued)

3. Expected loss for construction contract

Construction project	Expected loss		Remarks
	amount	Reason for expected loss	
Pakistani Lulu 1223MW Combined Cycle Project	28,685,253.29	Expected project cost exceeds contract revenue	
Pakistan Bikai 1180MW Combined Cycle Power Station Project	5,480,891.41	Expected project cost exceeds contract revenue	
Escalada Thermal Power Project in Ecuador	760,961.20	Expected project cost exceeds contract revenue	
Ecuador 500KV EHV Transmission and Transformation Project	16,739,739.80	Expected project cost exceeds contract revenue	
Dubai Haxiang Coal Power Plant Project	208,330,208.66	Expected project cost exceeds contract revenue	
Sanmen3#	3,047,350.43	Compared with Lufeng Haiyang's same type of unit, the price of the Sanmen project contract is low, the price of imported materials is high, and it is difficult to process nuclear power projects.	
Sanmen3#	3,047,350.43	Compared with Lufeng Haiyang's same type of unit, the price of the Sanmen project contract is low, the price of imported materials is high, and it is difficult to process nuclear power projects.	
Shenhuaguohuanningdong 1#	6,967,919.43	Expected project cost exceeds contract revenue	
Hefei Thermal Power Project	30,740,000.00	Estimated total cost is greater than projected total revenue	
Jixian Fengyuan Project	29,580,000.00	Estimated total cost is greater than projected total revenue	
Total	333,379,674.65		

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

49. Interest income and interest expense

items	Current period	Last period
Interest income	440,314,100.89	363,414,918.10
Interbank deposit	426,929,921.87	340,495,847.61
Deposit in central banks	12,832,809.58	14,204,519.09
Loans to other banks	194,444.44	637,222.21
Loans and advances paid	129,816.62	8,011,146.45
Including: Individual loans and advances		
Company loans and advances		4,795,024.67
Discounted notes	129,816.62	3,216,121.78
Reverse-repo financial assets		
Bond investments		
Others	227,108.38	66,182.74
Including: Impaired financial asset interest income		
Interest expense	24,780,211.04	6,358,429.84
Interbank deposit		
Borrowings from central bank		
Borrowings from other banks		
Absorbing deposit	24,780,211.04	6,358,429.84
Proceeds of REPO financial assets		
Issue of bonds		
Others		
Net interest income	415,533,889.85	357,056,488.26

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

50. Handling charges and commission income, and handling charges and commission expenses

Items	Current period	Last period
Revenue from handling charges and commission	9,091.93	180,417.64
Settlement and clearing fees		
Agency services fees		
Credit fees and commission		
Bank card fees		
Advisory fees		
Custodian and other fiduciary service fees		
Others	9,091.93	180,417.64
Handling charges and commission expenses	15,292.72	19,292.43
Handling charges	15,292.72	19,292.43
Commission expenses		
Net handling charges and commission income	-6,200.79	161,125.21

51. Taxes and surcharges

Items	Current period	Last period
Business tax		1,349,797.55
City maintenance and construction tax	52,668,666.68	80,039,024.72
Education surcharge	27,697,758.47	34,400,697.01
Local education surcharge	9,982,015.83	22,911,965.04
Stamp tax	20,126,937.74	16,478,023.11
Property tax	37,861,675.67	21,031,612.57
Tenure tax	29,709,121.47	18,785,432.59
Vehicle and vessel use tax	68,060.42	60,225.98
Others	510,612.88	2,761.76
Total	178,624,849.16	195,059,540.33

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

52. Selling expenses

Items	Current period	Last period
Salary cost	199,437,711.67	202,788,429.39
Quality warranty expenses	228,295,986.87	200,748,525.59
Traveling expenses	71,646,606.53	77,132,736.38
Transportation expenses	49,182,240.75	66,248,319.17
activity fee	14,302,815.74	17,989,115.90
Overseas funds	26,198,056.33	17,221,591.89
consulting cost	15,117,553.31	17,063,798.03
Insurance fees	507,309.43	283,686.96
Business expenses	1,644,148.22	3,492,236.45
Office fee	2,847,602.77	3,152,828.36
Promotion expenses	1,177,655.50	577,254.64
Advertising fee	5,528,203.24	6,413,434.41
Others	23,490,098.52	25,121,934.80
Total	639,375,988.88	638,233,891.97

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

53. Administrative expenses

Items	Current period	Last period
Salary expenses	1,138,912,238.41	1,020,067,258.33
Research and development expenses	291,502,274.61	295,945,136.66
Depreciation and amortization expenses	181,772,591.29	192,026,270.04
Maintenance expenses	132,135,997.32	189,496,561.97
Travelling expenses for conferences	86,027,726.25	78,365,829.01
Service contract fees	44,800,268.99	44,121,214.14
Office fees	39,830,226.99	35,302,500.84
Tax expenses		28,639,525.98
oversea fund	19,297,468.58	17,500,170.64
material consumption	12,294,267.71	14,793,702.82
Utility charges	14,515,521.60	14,766,844.04
heating fee	15,598,399.12	12,861,682.06
Freight expenses	9,415,914.67	11,774,014.94
Entertainment expenses	28,411,987.57	8,807,469.38
Disabled employment security fund	12,733,794.34	8,541,223.97
Agency costs	11,323,098.21	5,705,778.22
Auditor's remuneration	2,358,490.57	2,358,490.57
amortization of low cost and short- lived goods	3,927,472.16	4,951,482.87
consulting fee	7,547,220.37	4,758,579.48
Verification fee	4,492,751.60	3,864,098.08
Insurance fee	8,336,505.96	3,548,936.47
Litigation costs	969,067.47	396,861.50
Technology transfer fee	99,321.87	6,761,610.34
Board fees	297,032.38	93,782.41
Sewage charges	3,898,204.28	1,929,555.39
Others	183,208,365.53	129,315,324.01
Total	2,253,706,207.85	2,136,693,904.16

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

54. Financial expenses

Items	Current period	Last period
Interest expenses	241,715,596.09	273,617,831.40
Less: interest income	47,822,335.41	59,198,957.71
Exchange gain and loss	100,183,554.29	-87,277,521.94
Handling charges	22,693,862.71	27,528,407.00
Others	6,018,523.17	-27,164,363.95
Total	322,789,200.85	127,505,394.80

55. Impairment on assets

Items	Current period	Last period
Bad debts	496,943,368.14	268,757,610.17
Inventory write-down loss	485,214,814.27	278,107,298.86
Loan impairment	-92,236.44	97,206.82
Impairment loss of available-for-sale Financial assets	4,000,000.00	
Long-term equity investment impairment loss	1,419,804.00	
Impairment loss of fixed assets	27,048,626.92	
Impairment loss of construction in progress	366,000.00	
Impairment loss of intangible assets	2,228,239.67	28,413,362.62
Total	1,017,128,616.56	575,375,478.47

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

56. gain from fair-value changes

The source of gain on changes of fair value	Current period	Last period
Financial assets at fair value through profit or loss	-12,995,817.33	9,110,127.34
Including: gain on changes of fair value in derivative financial liabilities	-12,995,817.33	9,110,127.34
Financial liabilities at fair value through profit or loss		
Investment property at fair value		
Total	-12,995,817.33	9,110,127.34

Note: Financial assets and financial liabilities whose fair value is measured and whose changes are recognized in profit or loss for the current period are the forward foreign exchange settlement contracts entered into by the company to avoid exchange rate fluctuations. On the balance sheet date, the fair value of exchange rate and forward foreign exchange based on the balance sheet date is used to calculate the fair value gains

57. Investment income

Items	Current period	Last period
Cost accounting method of a long-term equity investment gains		
Income from long-term equity investments under equity method	26,360,761.31	1,783,571.40
Gains on disposal of long-term equity investments	25,721,172.72	6,997,011.78
Gains on holding financial assets at fair value through profit or loss		
Gains on disposal of financial assets at fair value through profit or loss		
Gains on holding held-to-maturity investments		
Gains on holding available-for-sale financial assets	69,195,981.50	47,846,100.80
Gains on disposal of available-for-sale financial assets	271,077.79	1,475,753.43
After the loss of control, gains from remeasuring the remaining equity at fair value		
Foreign exchange hedging business profit and loss	-82,275.23	-352,646,350.58
Total	121,466,718.09	-294,543,913.17

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

58. Asset disposal income

Items	Current period	Last period	Including the amount of non-recurring profit and loss for the current period
Disposal of fixed assets income	3,627,423.23	5,719,256.88	3,627,423.23
Disposal of intangible assets income			
Total	3,627,423.23	5,719,256.88	3,627,423.23

59. Exchange gains

Items	Current period	Last period
Exchange gains	496.06	
Total	496.06	

60. Other income

Items	Current period	Last period
Government subsidy	45,731,908.93	
Total	45,731,908.93	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

60. Other income (Continued)

Including the government subsidy for the current profit and loss

Items	Current period	Last period
Development and Demonstration of Key Technologies for Burning 600MW Super (ultra-) Boiler in Zhundong High-alkalinity Coal in Xinjiang	50,000.00	
Development and Demonstration of Critical Technology for Supercritical (Hybrid) Corner Tangentially Fired π -Type Boiler Burning High-alkali Coal in Xinjiang	401,233.00	
600–1000MW grade super (super) critical Zhundong coal boiler R & D	333,333.00	
Development of 660MW High-Efficiency Ultra-Supercritical Circulating Fluidized Bed Boiler	430,000.00	
Development of key technology for burning 600MW class super (super) critical boiler in Zhundong Coal	100,000.00	
High sulfur/high alkali coal ultra-low emission technology and equipment integration and application	108,000.00	
Low pollutant combustion technology and application	746,000.00	
Experimental Study on MW-Grade Tangent Circle Hot State Experiment of Semi-coke and Gasification Residue Carbon Blended with Coal Blending Synergistic Combustion Technology	267,500.00	
Construction and Experimental Research of Test Platform for Ultra Low Volatile Carbon-based Fuel Preheating Burners	117,500.00	
Three Gorges Giant Total Air Cooling Unit 820–00–1104	5,625,000.00	
600MW tidal current generator 820–00–1308	119,094.22	
Ocean Energy Comprehensive Technical Service Platform Construction 820–00–1401	3,871.41	
700m water head section pumped storage unit hydraulic performance R & D 820–00–1501	442,728.38	
Research and Application of Integration of Key Equipment and Safe Operation of Long-distance Water Transfer Project Gate Valve System 820–00–1606	9,216.00	
Zhen Runke (2014) Document No. 5 on the Application for Disbursement of Special Funds for Major Science and Technology Projects	8,100,000.00	
Zhenjiang 2011 City-level SME Development Special Guidance Fund	45,645.86	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

60. Other income (Continued)

Including the government subsidy for the current profit and loss (Continued)

Items	Current period	Last period
Zhenjiang City's eighth batch of science and technology plans (emerging industrial and technological special projects) and expenditures for expenditures on technology research and development in 2011	114,114.66	
2011BAF03B03 (YANG KAI LI)	45,461.46	
Funding for research on starting methods, ventilation and cooling technologies for large-scale generator motors	165,674.63	
Development of IoT-based power generation equipment lifecycle service support system project grants	107,729.37	
Jiangbei Base Research Center	1,575,700.00	
Loan interest	11,000,000.00	
Technical special funds	993,000.00	
Leading industry technological transformation project discount interest funds	266,666.64	
Research on Key Manufacturing Technology of AP1000 Steam Generator	500,000.00	
Military refunds	4,832,981.66	
Patented technology rewards	91,000.00	
Study on High Temperature Performance of High Temperature Alloy Materials for Gas Turbines	1,616,226.61	
Joint development of efficient trough solar thermal power generation technology	1,868,913.40	
Research on Preparation Technology and Application of Cast Superalloy	2,986,453.00	
Development of an Efficient 660,000 kilowatt Ultra-supercritical Steam Turbine Unit	100,000.00	
2017 City-level Service Outsourcing Development Special Fund	800,000.00	
Short-term export credit insurance subsidy income	1,768,865.63	
Total	45,731,908.93	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

61. Non-operating income

1. Non-operating income details

Items	Current period	Last period	Included in the amount of the non-recurring gains and losses of the current period
Gains on debt restructuring	325,314.71		325,314.71
Gains on trading of non-cash assets			
Donation received			
Government grants	50,539,789.12	102,771,108.59	50,539,789.12
Others	21,359,762.52	10,166,735.13	21,359,762.52
Total	72,224,866.35	112,937,843.72	72,224,866.35

2. Government grants recognized into profit and loss in the current period

Items	Current period	Last period	Related to assets/related to income
Government incentive funds	20,000,000.00		Related to income
City Financial Award Fund	12,060,000.00		Related to income
Steady occupation subsidies	6,244,713.39	12,886,299.00	Related to income
Industrial Development Fund Award	3,283,000.00	2,000,000.00	Related to income
Thousand Talents Program – 2 Talents 5 Years Life Expense Subsidy	1,215,000.00	1,215,000.00	Related to income
Harbin Municipal Market Supervision Bureau Mayor Quality Award	1,000,000.00		Related to income
Patent technology grant funds	677,500.00	1,198,180.90	Related to income
New District Construction Cost Subsidy	671,569.24	671,569.24	Related to income
Unemployment insurance subsidies	553,722.11		Related to income
Chengdu Bureau of Economic and Technical Development Subsidy Fund	501,200.00		Related to income
Harbin City Unemployment Insurance Fund Management Center	496,995.16	9,991,848.00	Related to income
Harbin Electric Group Retired Cadre Medical Expense Subsidy	460,000.00		Related to income
Withholding personal income tax fees	443,042.56		Related to income

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

61. Non-operating income (Continued)

2. Government grants recognized into profit and loss in the current period (Continued)

Items	Current period	Last period	Related to assets/related to income
Received the Ministry of Science and Technology 10,000 person plan special support funds	250,000.00		Related to income
Enterprises recruit university graduates' grant funds	239,880.74	1,639,233.69	Related to income
Xindu District Economic and Technological Investment Promotion and Information Technology Bureau added new interest on liquidity loans	213,500.00		Related to income
Heilongjiang Provincial Department of Human Resources and Social Security, Heilongjiang Province, Leading Talents Team, "535 Project", First Level, Echelon Funding	200,000.00		Related to income
Harbin City Science and Technology Bureau Deoxygen Condenser Project Revenue	200,000.00		Related to income
Participate in international standardization activities in 2017	130,000.00		Related to income
Heilongjiang Provincial Human Resources and Social Security Department Provincial Leading Talent Echelon Funding	100,000.00		Related to income
Supercritical and ultra-supercritical turbine blade technical standards	100,000.00		Related to income
Harbin Employment Leading Group Office Skills Master Studio Subsidy	50,000.00		Related to income
Vehicle scrapping assistance	43,000.00		Related to income
Key Enterprises in Harbin City Introduce Special Talents Special Support Funds	38,250.00		Related to income
Qinhuangdao Science and Technology Bureau Patent Application Subsidy	30,500.00		Related to income
Booth subsidy	12,000.00		Related to income
Key project product tax exemption (military products)		20,443,895.98	Related to income
Three Gorges giant full air cooling unit		5,625,000.00	Related to income
Zhenjiang 2012 Runzhou Emerging Industry Development Special Guide Fund		4,078,564.55	Related to income
Service Outsourcing and Technology Export Subsidies in 2015		3,550,000.00	Related to income

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

61. Non-operating income (Continued)

2. Government grants recognized into profit and loss in the current period (Continued)

Items	Current period	Last period	Related to assets/related to income
Development and Application of Series Tool for Typical Parts Processing of Steam Turbine and Gas Turbine		210,659.43	Related to income
International cooperation projects		3,760,000.00	Related to income
Electron beam welding technology and quality control for thick and complex structures		2,523,737.07	Related to income
National Nuclear Power Major Project- Development of Shanghai CAP1000MW Nuclear Power Half-speed Turbogenerator		2,184,816.68	Related to income
Development of key valves for ultra- supercritical thermal power units		2,000,000.00	Related to income
Harbin Finance Treasury Payment Center – 16 Years of Industrial Development Gold First Set Award		2,000,000.00	Related to income
Development and Application of 1000MW Ultra-Supercritical Unit with High Load Rate		1,829,903.96	Related to income
AP1000 nuclear power semi-speed generator		1,806,552.67	Related to income
Transferring social security subsidies for 14/15 years		1,329,513.00	Related to income
Development of a 1.5 MW Semi-Direct Drive Permanent Magnet Wind Generator		1,200,000.00	Related to income
1000MW Digital Design and Manufacturing Cooperative System		1,000,000.00	Related to income
Equipment manufacturing industry first (sets) product project		1,000,000.00	Related to income
Others	1,325,915.92	18,626,334.42	Related to income
Total	50,539,789.12	102,771,108.59	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

62. Non-operating expenses

Items	Amount for this period	Amount for previous period	Including the amount of non-recurring gains and losses of the current period
Total non-current asset retirement loss	3,695,842.30		3,695,842.30
Including: loss of retirement of fixed assets	3,695,842.30		3,695,842.30
Intangible asset retirement loss			
Losses from debt restructuring			
Non-monetary asset exchange losses			
Donate to the outside world			
Expected loss contract	156,360,284.89	162,949,022.36	156,360,284.89
Others	2,905,518.01		2,905,518.01
Total	162,961,645.20	162,949,022.36	162,961,645.20

63. Tax income expense

1. Income tax expense subproject status

Items	Amount for this period	Amount for previous period
Current income tax calculated according to tax law and related regulations	163,258,837.00	194,055,270.91
Deferred income tax adjustment	-80,861,025.97	-28,479,970.82
Total	82,397,811.03	165,575,300.09

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

63. Tax income expense (Continued)

2. Accounting profit and income tax expense adjustment process

Items	Amount for this period
Total profit	343,366,404.93
Income tax expense at legal or applicable tax rate	77,493,512.26
Subsidiaries apply different tax rates	-1,301,724.78
Adjust the impact of income tax in previous periods	1,994,271.73
The impact of non-taxable income	-814,115.75
R&D expenditures plus deductions	-20,347,581.52
Non-deductible costs, expenses, and impact of loss	70,554,064.38
Impact of the use of deductible losses on the use of unrecognized deferred income tax assets in the prior period	-90,040,173.14
The impact of deductible temporary differences or deductible losses on deferred income tax assets that have not been recognized in the current period	46,392,735.45
Other	-1,533,177.60
Income tax expense	82,397,811.03

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

64. Cash flow statement supplementary information

1. Cash flow statement supplementary information

Items	Amount for this period	Amount for previous period
1. Regulate net profit as operating activity cash flow		
Net profit	260,968,593.90	491,593,840.86
Add: Impairment preparation of asset	1,017,128,616.56	575,375,478.47
Depreciation of fixed assets, loss of oil and gas assets, and depreciation of productive biological assets	696,372,060.51	690,016,887.20
Amortization of intangible assets	50,953,111.61	49,315,328.46
Amortization of long-term deferred expenses	12,017,505.45	11,854,239.98
Disposal of fixed assets, intangible assets and other long-term assets (revenues are marked with "-")	-3,627,423.23	-5,684,416.42
Loss of scrapped fixed assets (earnings are marked with "-")	3,695,842.30	-
Loss of change in fair value (income is marked with a "-sign)	12,995,817.33	-9,110,127.34
Financial expenses (revenues are marked with "-")	439,256,686.96	216,825,945.72
Loss of investment (earnings are marked with "-")	-121,466,718.09	294,543,913.17
Deferred income tax assets decreased (increased by "-")	-80,861,025.97	-87,293,996.03
Deferred income tax liabilities increase (decrease by "-")		
Decrease of inventory (added with "-sign)	579,269,657.41	-866,384,573.63
Reduction of operational receivables (added with "-")	-1,274,536,453.37	-1,907,691,904.04
Increase in operating payables (decrease by "-")	-4,275,691,999.21	2,134,373,061.15
Others	-8,723,349.80	41,238.87
Net cash flow from operating activities	-2,692,249,077.64	1,587,774,916.42
2. Major investment and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Finance leased fixed assets		
3. Net changes in cash and cash equivalents		
Cash closing balance	15,290,694,982.85	17,204,139,648.41
Less: Opening balance of cash	17,204,139,648.41	17,178,496,464.76
Plus: closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
Net increase in cash and cash equivalents	-1,913,444,665.56	25,643,183.65

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

64. Cash flow statement supplementary information1. (Continued)

2. Composition of cash and cash equivalents:

Items	Closing balance	Opening balance
1. Cash	15,206,290,892.00	17,204,139,648.41
Including: Cash	6,045,527.87	8,884,872.77
Bank deposits that can be used for payment at any time	14,825,563,521.13	14,251,539,960.14
Other currency funds that can be used to pay at any time		
Central bank deposits available for payment	107,027,977.01	9,421,521.52
Depositing fellowships	266,874,755.83	2,934,293,293.98
Placement of interbank payments		
2. Cash equivalents		
Including: Bond investment due within three months		
3. Cash and cash equivalents at the end of the period	15,206,290,892.00	17,204,139,648.41

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

65. Assets with limited ownership or use rights

Items	Closing book value	Reason
Cash	958,947,389.47	Acceptance of money received, deposit of reserve deposits of the Central Bank, etc.
Fixed assets	90,371,372.40	Note 1
Intangible assets	31,389,048.73	Note 2
Total	1,080,707,810.60	–

Notes:

- (1) The closing book value of restricted fixed assets is RMB84,111,272.40, and the closing book value of restricted intangible assets is RMB26,174,848.73. The main reason is that Harbin Electric Machinery (Zhenjiang) Co., Ltd. signed three contracts with Zhenjiang Branch of Bank of China Co., Ltd. in 2014. The maximum amount of mortgage contracts, respectively: 1) with 17 sets (sets) of machinery and equipment as collateral contract number: 150319582E14061201-3, the contract amount of 29,937,700.00 yuan the maximum amount of mortgage contract. The relevant loan was paid off on September 2, 2016. Mortgage registration was cancelled; 2) The maximum mortgage contract with the contract amount of RMB54,967,600.00 with the house construction as the mortgage item contract number: 150319582E14061201-2; 3) the mortgage contract with the land contract number: 150319582E14061201-1 and the maximum contract amount of RMB21,991,830.00. Including: Mortgage contract with house construction as collateral, contract number 150319582E14061201-2 expires on June 1, 2017, and mortgage contract with contract number 150319582E14061201-1 on June 1, 2017. Expiry; because the relevant obligations have not been lifted, the mortgage contract is still effective.
- (2) The closing book value of restricted fixed assets of RMB6,260,100.00, and the closing book value of restricted intangible assets of RMB5,214,200.00 mainly from June 2, 2017 Chengdu Sanlia Technology Co., Ltd. and Chengdu Rural Commercial Bank Co., Ltd. Xindu Taixing Subbranch. The contract for the working capital loan signed by Xin Tai Gongliu of 2017 was signed with the borrowing amount of RMB15,900,000.00. The borrowing period was from June 2, 2017 to June 1, 2018, and the interest rate was 7.84%. The above borrowing was made by the serial number agriculture. Shang Xin Taigong reached 20160003 and provided credits for its borrowings. The collaterals were property and land use rights. The number of the mortgaged property is "No. 0289953 of new house right certificate, No. 0388958 of new house right certificate, No. 0388950 of new house right certificate, No. 0388955 of new house right certificate and land of Xindu Guoyong (2015) No. 10439. Right of use."

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

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

66. Foreign Currency Items

Items	Closing balance	Exchange rate	Closing balance
Cash			1,603,609,370.85
Including: USD	227,737,901.47	6.5342	1,488,084,995.78
Pakistan Rupee	891,103,402.03	0.0590	52,575,100.72
United Arab Emirates Dirham	16,247,726.95	1.7790	28,904,706.24
Sudanese pound	15,722,598.42	0.9314	14,644,028.17
EUR	1,396,836.45	7.8023	10,898,537.02
Other monetary	1,578,110,191.06		8,502,002.92
Account receivable			607,538,238.77
Including: USD	91,597,899.18	6.5342	598,518,992.84
Sudanese pound	1,285,856.05	0.9314	1,197,646.32
EUR	1,002,473.58	7.8023	7,821,599.61
Other receivables			349,181,161.73
Including: USD	35,183,881.44	6.5342	229,898,518.11
Pakistan Rupee	1,589,173,749.80	0.0590	93,697,684.28
Dirham	3,546,257.71	1.7790	6,308,792.47
Indonesian Rupiah	24,956,976,911.13	0.0005	12,020,565.07
Other monetary	5,719,599,040.40		7,255,601.80
Account payable			281,160,906.95
Including: USD	42,963,902.78	6.5342	280,734,733.57
Other monetary	5,808,744.24		426,173.38
Other payables			13,152,572.72
Including: USD	1,696,175.44	6.5342	11,083,149.55
Other monetary	3,072,621,259.03		2,069,423.17
Absorb deposit			7,237,597.21
Including: USD	1,107,648.56	6.5342	7,237,597.21
Interest payable			93,015.28
Including: USD	14,235.14	6.5342	93,015.28

NOTES TO 2017 FINANCIAL STATEMENTS

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

VI. CHANGE OF SCOPE

(1) Business mergers not under common control

1. Non-incurrence of business combination under the same control in this period
2. Business mergers under the same control that did not occur in this period

(2) There was no reverse purchase in this period.

(3) Non-disposal of subsidiaries during the current period.

(4) Changes in consolidation scope with other reasons

The company's third-level subsidiary, Hadian Group Wannato Valve Co., Ltd. was cancelled in December 2017. Before the liquidation was cancelled, the subsidiary has been properly incorporated into the consolidated statement of the company.

VIII. EQUITY IN OTHER ENTITIES

(1) Equity in subsidiaries

1. The composition of enterprise groups

Name	Main operating place	Registration	Main business country	Nature	Share holding proportion (%)		Method
					Direct	Indirect	
Harbin Boiler Factory Co., Ltd	Harbin	Harbin	China	manufacturing	92.08		Shareholder investment
Harbin Electric Machinery Co., Ltd.	Harbin	Harbin	China	manufacturing	89.63		Shareholder investment
Harbin Steam Turbine Factory Co., Ltd.	Harbin	Harbin	China	manufacturing	70.91		Shareholder investment
Harbin Electric International Engineering Co., Ltd.	Harbin	Harbin	Pakistan, Ecuador, Turkey, etc.	manufacturing	100		Investment
Harbin Electric Power Generation Equipment National Engineering Research Center Co., Ltd	Harbin	Harbin	China	Service industry	75		Investment

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(1) Equity in subsidiaries (Continued)

1. The composition of enterprise groups (Continued)

Name	Main operating place	Registration	Main business country	Nature	Share holding proportion (%)		Method
					Direct	Indirect	
Harbin Power Technology Trade Co., Ltd. (Note 1)	Harbin	Harbin	China	Export trade	55.56	41.82	Investment
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd. (Note 2)	Qinghuangdao	QingHuangdao	China	manufacturing	34.15	55.45	Investment
Harbin Electric Power Equipment Co., Ltd.	Harbin	Harbin	China	manufacturing	100		Investment
Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	Harbin	Harbin	China	manufacturing	100		Investment
Harbin Electric Group Finance Co., Ltd. (Note 3)	Harbin	Harbin	China	Finance	55.00	33.16	Company under the same control
Chengdu Sanlia Technology Co., Ltd. (Note 4)	ChengDU	ChnegDu	China	manufacturing	40.7		Liquidation
Shenzhen Ha Dynamic Huihua Industry & Trade Co., Ltd. (Note 5)	Shenzhen	ShenZhen	China	Trade	60		Investment
Harbin Harbin Electric Company	Harbin	Harbin	China	Other machinery and electronics wholesale	100		Corporate merger under the same control

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(1) Equity in subsidiaries (Continued)

1. The composition of enterprise groups (Continued)

The list of directors of the company's major subsidiaries is as follows:

Liu Zhiquan, Wang Dexing, Zhang Wei, Zhang Yanjun, Fan Xianfeng, Tian Zhenquan, Wang Qianzhuang, Che Dongguang, Xu Wei, Sun Baohong, Zhang Rui, Tao Xingming, Qu Xianwei, Li Guoqiang, Wu Hao, Zhang Zhenjiang, Xue Wei, Wang Yue, Lu Zhiqiang, Li Changbao, Yao Hongwei, Cheng Yue, Yu Haoyang, Zhong Weibin, Li Weidong, Li Mengqi, Zhang Jie, Jiang Qinghai, Wang Gui, Yang Qiguo, Zhang Hongtao, Gao Chao, Wang Xiaoqun, Qu Aimin, Chi Ming, Zhang Dianjun, Guo Yu, Wang Xiaotong, Wang Xiaohong, Ai Lisong, Zhang Liwei, Liu Rui, Wang Shouge, Chen Jun, Gao Xuguang, Saipeng, Song Zhaoyuan and others. The proportion of shares held by a subsidiary differs from the proportion of voting rights:

1. The shareholding structure of Harbin Power Technology Trade Co., Ltd. is 55.55% held by the company. Harbin Electric International Engineering Co., Ltd., a subsidiary of the company, holds 27.77% of the shares. Harbin Electric Machinery Co., Ltd., Harbin Boiler Factory Co., Ltd. and Harbin Steam Turbine Factory Co., Ltd. holds 5.56% each, and the company holds 97.38%.
2. The shareholding structure of Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd. is 34.15% held by the company. The subsidiaries of Harbin Electric Machinery Co., Ltd., Harbin Boiler Factory Co., Ltd. and Harbin Steam Turbine Factory Co., Ltd. each hold shares. 21.95%, 89.60% of the company's merger shares.
3. The shareholding structure of Harbin Electric Group Finance Co., Ltd. is 55.00% held by the company. Harbin Electric International Engineering Co., Ltd., a subsidiary of the Company, holds 18.00% of the shares. Harbin Electric Machinery Co., Ltd., Harbin Boiler Factory Co., Ltd. and Harbin Steam Turbine Factory Co., Ltd. holds 6.00% each, and the company holds 88.16% of the shares.

The basis for holding half or less of the voting rights but still controlling the investee, and holding more than half of the voting rights but not controlling the investee:

4. The equity structure of Chengdu Sanlia Technology Co., Ltd. is 40.70% of the shares held by the company and 40.70% of the shares are entitled to voting. As the company's directors are more than half of its board members, it controls the formation of the company.
5. The equity structure of Shenzhen Hadong Huihua Industry & Trade Co., Ltd.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(1) Equity in subsidiaries (Continued)

2. An important non-wholly-owned subsidiary

Named	Share holding of minority shareholders (%)	Gain and loss attributable to minority shareholders during the current period	Distribute dividends to minority shareholders in this period	Balance of Minority Interests at the End of the Period
Harbin Electric Machinery Co., Ltd.	10.37	3,117,622.14		543,329,580.63
Harbin Boiler Factory Co., Ltd.	7.92	23,332,957.21	5,085,740.88	450,435,577.34
Harbin Steam Turbine Factory Co., Ltd	29.09	30,188,400.73		6,797,007.97
Harbin Electric Group Finance Co., Ltd	9.00	17,880,279.17	2,461,951.35	184,111,666.43

3. Major non-wholly-owned subsidiary's major financial information

Subsidiaries Name	Closing balance					Total liabilities
	Current asset	Non-current asset	Total asset	Current liabilities	Non-current liabilities	
Harbin Electric Machinery Co., Ltd	10,490,823,587.40	1,801,738,581.52	12,292,562,168.92	6,756,004,877.38	297,120,641.27	7,053,125,518.65
Harbin Boiler Factory Co., Ltd.	18,749,066,406.17	1,883,282,508.24	20,632,348,914.41	14,599,932,353.09	310,304,139.72	14,910,236,492.81
Harbin Steam Turbine Factory Co., Ltd.	9,794,830,023.87	2,255,535,355.09	12,050,365,378.96	11,901,780,374.67	125,219,559.21	12,026,999,933.88
Harbin Electric Group Finance Co., Ltd.	14,040,276,749.79	779,739,011.95	14,820,015,761.74	12,767,171,423.71	7,159,155.44	12,774,330,579.15

Subsidiaries Name	Opening balance					Total liabilities
	Current asset	Non-current asset	Total asset	Current liabilities	Non-current liabilities	
Harbin Electric Machinery Co., Ltd	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 Factory Co., Ltd.	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 Steam Turbine Factory Co., Ltd	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 Group Finance Co., Ltd	14,894,541,318.55	490,287,100.51	15,384,828,419.06	13,531,410,456.37		13,531,410,456.37

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(1) Equity in subsidiaries (Continued)

3. Major non-wholly-owned subsidiary's major financial information (Continued)

Subcompany name	Amount for this period			
	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities
Harbin Electric Machinery Co., Ltd.	3,546,878,139.25	29,662,689.14	29,662,689.14	349,981,865.72
Harbin Boiler Factory Co., Ltd.	8,679,103,061.65	298,044,238.05	298,044,238.05	-820,381,815.30
Harbin Steam Turbine Factory Co., Ltd.	6,103,657,734.41	103,178,857.61	103,178,857.61	-938,163,638.30
Harbin Electric Group Finance Co., Ltd.	458,653,543.63	198,669,768.59	219,622,234.90	-818,606,504.20

Subcompany name	Amount for previous period			
	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities
Harbin Electric Machinery Co., Ltd.	4,615,804,100.34	-2,640,082.79	-2,640,082.79	39,818,600.16
Harbin Boiler Factory Co., Ltd.	9,049,207,004.68	359,167,660.48	359,167,660.48	10,330,800.94
Harbin Steam Turbine Factory Co., Ltd.	5,385,324,707.52	52,286,310.25	52,286,310.25	-170,785,247.52
Harbin Electric Group Finance Co., Ltd.	382,149,601.47	136,775,074.98	136,775,074.98	-848,811,399.26

(2) Equity in joint venture arrangements or associates

1. Important associates

Name	Main operation location	Registration	Nature	Share holding (%)		Accounting for investments in joint ventures or associates method
				Direct	Indirect	
GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd.	Qinhuangdao	Qinhuangdao	Energy service	41		Equity method
Huludao Binhai Electric Power Co., Ltd.	Huludao	Huludao	manufacturing	50		Equity method

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(2) Equity in joint venture arrangements or associates (Continued)

2. Major financial information of major associates

Items	GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd.	
	Closing balance	Opening balance
Current assets	333,786,606.36	280,695,281.45
Including: cash and cash equivalents		
Non-current assets	104,391,019.73	101,005,718.71
Total assets	438,177,626.09	381,701,000.16
Current liabilities	107,845,951.62	67,708,378.82
Non-current liabilities		
Total liabilities	107,845,951.62	67,708,378.82
Interest of minority shareholders		
Attributable to the equity of the parent company	330,331,674.47	313,992,621.34
Share of net assets by shareholding	135,435,986.53	128,736,974.75
Adjustment items		
– Goodwill		
– Unrealized profit of internal transaction		
– Others		
Book value of equity investment in joint ventures	135,003,849.87	128,304,838.06
The fair value of equity investment in joint ventures with open bids		
Operating income	282,443,110.84	222,739,400.87
Financial expense	-1,872,687.75	-3,588,255.06
Income tax expense	17,709,280.65	12,636,276.05
Net profit	59,674,236.13	36,656,695.57
Discontinued operating net profit		
Other comprehensive income		
Total comprehensive income	59,674,236.13	36,656,695.57
Dividends from joint ventures received during the current year	17,767,425.00	17,789,069.00

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(2) Equity in joint venture arrangements or associates (Continued)

2. Major financial information of major associates (Continued)

Items	Huludao Binhai Electric Power Co., Ltd.	
	Closing balance	Opening balance
Current asset	76,255,087.90	76,255,087.90
Non-current asset	28,557,819.81	28,557,819.81
Total asset	104,812,907.71	104,812,907.71
Current liabilities	2,282,109.49	2,282,109.49
Non-current liabilities		
Total liabilities	2,282,109.49	2,282,109.49
Equity of minority shareholders		
Attributable to the equity of the parent company	102,530,798.22	102,530,798.22
Share of net assets by shareholding	51,265,399.11	51,265,399.11
Adjustment items		
– Goodwill		
– Unrealized profit from the internal transaction		
– Others		
Book value of equity investment in associates	49,898,970.38	51,265,399.11
The fair value of the equity investment of an associated company that has a public quotation		
Operating income		24,611,992.28
Net profit		-2,030,495.96
Discontinued operating net profit		
Other comprehensive income		
Total comprehensive income		-2,030,495.96
Dividend from the joint venture		

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(2) Equity in joint venture arrangements or associates (Continued)

3. Summary financial information of unimportant joint ventures and associates

Items	Closing balance	Opening balance
Joint venture :		
Total investment book value	18,086,294.53	34,782,336.75
Total amount basis on the Proportion of share hold		
– Net profit	1,894,324.50	-14,223,778.66
– Other comprehensive income		
– Total comprehensive income	1,894,324.50	-14,223,778.66

VIII. RELATED RISKS OF FINANCIAL TOOLS

The company faces various financial risks in the course of its operations: credit risk, market risk and liquidity risk. The board of directors of the company is fully responsible for the determination of risk management objectives and policies and bears ultimate responsibility for risk management objectives and policies. The company's internal auditors also audit the risk management policies and procedures and report the findings to the audit committee.

The overall goal of the company's risk management is to formulate a risk management policy that minimizes risks without excessively affecting the company's competitiveness and resilience.

(1) Credit risks

Credit risk refers to the risk that one party to a financial instrument fails to perform its obligations and causes financial losses to the other. The company is mainly facing customer credit risk caused by credit sales. Before the signing of the new contract, the company will evaluate 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 sets a credit limit for each customer, which is the maximum amount that does not require additional approval. The company's major customers are clients at the border and have handled the export business credit insurance for the accounts receivable of the major customers.

The company ensures that the company's overall credit risk is within control of the company through quarterly monitoring of existing customer credit ratings and monthly review of accounts receivable aging analysis. When monitoring the customer's credit risk, they are grouped according to their credit characteristics. Customers rated as "high-risk" will be placed on the list of restricted customers, and the company can only sell them on the premise of additional approval, otherwise they must be required to pay in advance

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

VIII. RELATED RISKS OF FINANCIAL TOOLS (CONTINUED)

(2) Market risks

The market risk of financial instruments refers to the risk that the fair value or future cash flow of financial instruments fluctuates due to changes in market prices, including foreign exchange risk, interest rate risk and other price risks.

(1) Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in market interest rates. The interest rate risk faced by the company mainly comes from short-term bank borrowings. The bank borrowed RMB115,600,000.00 which was calculated by the company at the same national standard interest rate for the same period or a certain percentage of interest rate. Under the assumption that other variables are unchanged, when the rate of interest changes reasonably and the possible 100% benchmark point changes, it will not have a significant impact on the company's total profit and shareholders' equity.

(2) Foreign exchange risk

Foreign exchange risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in foreign exchange rates. The company's exposure to foreign exchange risk is mainly related to US Dollars, Euros, Hong Kong Dollars, and British Pounds, with the exception of Harbin Electric International Engineering Co., Ltd., a subsidiary of the Company, which purchases and sells US Dollars, Euros, Hong Kong Dollars, British Pounds, and other major business activities

(3) Liquidity risk

Liquidity risk refers to the risk of shortage of funds when an enterprise fulfills its obligations to settle cash or other financial assets. The company's policy is to ensure that it has sufficient cash to repay the debts due. Liquidity risk is centrally controlled by the company's financial department. The financial department ensures that the company has sufficient funds to repay the debt under all reasonably predicted circumstances by monitoring the cash balance, the securities that can be realised at any time, and rolling forecasts of the cash flow for the next 12 months.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

VIII. RELATED RISKS OF FINANCIAL TOOLS (CONTINUED)

(3) Liquidity risk (Continued)

The analysis of the financial assets and financial liabilities held by the company based on the maturity period of the undiscounted residual contractual obligations is as follows:

	Within 1 year
Financial assets and liability :	
Cash	16,165,238,281.47
Notes receivables	4,362,451,678.86
Amount receivables	16,222,531,095.81
Other receivables	1,208,967,734.76
Short-term loan	3,083,568,542.78
Note payables	5,479,804,293.43
Account payables	14,051,708,904.60
Wages and salaries	319,715,914.16
Other payables	277,646,983.05
Non-current liabilities due within one year	2,999,707,500.00
Other non-current liabilities	134,893.80

IX. FAIR VALUE DISCLOSURE

Input values used for fair value measurement are divided into three levels:

- The first-level inputs are unadjusted quotes for the same assets or liabilities that can be obtained on the measurement date in an active market.
- The second level input value is the input value that is directly or indirectly observable for the relevant assets or liabilities except for the first level input value.
- Level 3 inputs are unobservable inputs to related assets or liabilities.

The level to which the fair value measurement results belongs is determined by the lowest level of the input value that is of importance to the fair value measurement as a whole.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

IX. FAIR VALUE DISCLOSURE (CONTINUED)

Items	Fair value at the end of period			Total
	Level 1 Fair Value Measurement	Level 2 Fair Value Measurement	Level 3 Fair Value Measurement	
1. Continuing fair value measurement				
(1) Other current assets	1,028,636,621.75			1,028,636,621.75
(a) Bank financial products	1,028,636,621.75			1,028,636,621.75
(2) Available for sale financial assets	49,300,000.00			49,300,000.00
(a) Debt instrument investment	49,300,000.00			49,300,000.00
(b) Equity instrument investment				
(c) Others				
Total continuing assets measured at fair value	1,077,936,621.75			1,077,936,621.75

X. RELATED PARTY AND TRANSACTION

The following amount units are RMB yuan unless otherwise specified

(1) Parent company information

Parent company	Registration	Nature	Registered capital (ten thousand yuan)	Proportion of share holding (%)	Proportion of voting rights (%)
Harbin Electric Group Co., Ltd.	Harbin	Power station equipment manufacturing and sales	198,818.10	50.93	50.93

(2) The company's subsidiary

For the details of this company's subsidiary, please refer to Note VII. Interests in other subjects (1) Interests in Subsidiaries.

(3) joint ventures and associates of Company

For details of the important joint ventures or associates of this company, see Note VII. Interests in other entities.
(2) Interests in joint arrangements or joint ventures.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

X. RELATED PARTY AND TRANSACTION (CONTINUED)

(4) Information of other related party

Name	Relationship
Harbin Harbin Electric Industrial Development Corporation	Subsidiary controlled by the same parent company
Harbin Haguo Industrial Development Corporation	Subsidiary controlled by the same parent company
Harbin Harbin Industry Development Corporation	Subsidiary controlled by the same parent company
Harbin Sanlian Industrial Development Corporation	Subsidiary controlled by the same parent company
Harbin Industrial Furnace Joint Venture	Subsidiary controlled by the same parent company
Harbin Electric Group Acheng Relay Co., Ltd.	Subsidiary controlled by the same parent company
Jiamusi Motor Factory Co., Ltd	Subsidiary controlled by the same parent company
Harbin Qingyuan Electric Material Co., Ltd.	Subsidiary controlled by the same parent company

(5) Transaction information for related party

The transaction price of the transaction between the company and the related party is the price agreed between the parties and is consistent with the transaction price of the non-related party.

1. Continuing Connected Transaction

The "Continuing Connected Transactions – management entrustment agreement" announcement issued by the Company on January 29, 2016, the "Continuing Connected Transaction – Product and Services Framework Agreement", "Continuing Connected Transaction – Financial Services Framework Agreement" announcement issued by the Company on December 9, 2016, "Continuing Connected Transactions" issued on February 22, 2017– Supplementary Announcement of Financial Services Framework Agreement Announcement and Supplementary Agreement of Financial Services Framework Agreement" Announcement, the Company and Harbin Electric Group Co., Ltd. signed the "Management entrustment agreement", "Product and Services Framework Agreement", "Financial Services Framework Agreement" and its supplementary agreement, the validity of the above agreement respective from March 23, 2016 to March 22, 2019, January 1, 2017 to December 31, 2019, and December 31, 2016 to December 30, 2019.

(1) Transaction information for products and services

Related party	Amount for this period	Amount for previous period
Sales of goods		
– Company under the same control	5,562,974.47	17,637,264.48
– Associates		
Purchase		
– Company under the same control	61,279,576.13	45,224,616.25
– Associates		
Service expense		
– Company under the same control	55,413,302.09	58,993,788.91

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

X. RELATED PARTY AND TRANSACTION (CONTINUED)

(5) Transaction information for related party (Continued)

1. Continuing related transactions (Continued)

(1) Transaction information for products and services (Continued)

The above transaction (1) is a transaction under the "Continuing Connected Transaction – Product and Services Framework Agreement" and is a continuing connected transaction under the requirements of Chapter 14A of the Listing Rules.

(2) Interest paid on deposits

Related party	Amount for this period	Amount for previous period
Holding company	23,575,469.57	4,906,561.92
Company under the same control	1,194,144.74	1,352,754.94
Associates	10,239.37	99,112.98
Total	24,779,853.68	6,358,429.84

(3) Interest income from discounted Notes

Related party	Amount for this period	Amount for previous period
Company under the same control	18,409.34	22,350.47
Total	18,409.34	22,350.47

(4) Fee and commission income

Related party	Amount for this period	Amount for previous period
Company under the same control		4,428.49
Associates	9,091.93	
Total	9,091.93	4,428.49

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

X. RELATED PARTY AND TRANSACTION (CONTINUED)

(5) Transaction information for related party (Continued)

1. Continuing related transactions (Continued)

(5) Entrusted loan interest income

Related party	Amount for this period	Amount for previous period
Holding company		4,802,410.90
Company under the same control	7,802,504.72	8,546,438.68
Total	7,802,504.72	13,348,849.58

The above transactions (2) to (5) are transactions under the “Continuing Connected Transactions – Financial Services Framework Agreement” and are continuing connected transactions under the requirements of Chapter 14A of the Listing Rules.

(6) Consignment management fees

Related party	Content of related party	Amount for this period	Amount for previous period
Harbin Electric Group Co., Ltd.	Commissioned agency fees	3,280,000.00	3,280,000.00
Total		3,280,000.00	3,280,000.00

The above transaction (6) is a transaction under the “Continuing Connected Transactions – management entrustment agreement” and is a continuing connected transaction under the requirements of Chapter 14A of the Listing Rules.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

X. RELATED PARTY AND TRANSACTION (CONTINUED)

(5) Transaction information for related party (Continued)

1. Continuing related transactions (Continued)

(7) Directors, Supervisors and Senior Management Compensation

The remuneration of each director, supervisor and senior management staff in 2017 is as follows: :

Unit: RMB

Name	Wages and other benefits	Retirement benefit plan contributions	Total
1. Director			
(1) executive director			
Mr. Sizefu			
Mr. Wu Weizhang	482,500.00	76,572.00	559,072.00
Mr. Zhang Yingjian	458,600.00	74,047.00	532,647.00
Mr. Song Shichen	448,700.00	76,572.00	525,272.00
Executive Director Subtotal	1,389,800.00	227,191.00	1,616,991.00
(2) Non-Executive Director			
None			
(3) Independent Non-executive Director			
Mr. Zhu Hongjie (took office at 2017.3.20)	50,000.00		50,000.00
Mr. Hu Jianmin (took office at 2017.3.20)	50,000.00		50,000.00
Yu Wen-xing	60,000.00		60,000.00
Mr. Yu Yu (Resignation of 2017.3.20)			
Mr. Liu Dengqing (resigned from 2017.12.29)	100,000.00		100,000.00
Subtotal of independent non-executive directors	260,000.00		260,000.00
2. Supervisors			
Mr. Feng Yongqiang	448,700.00	76,572.00	525,272.00
Mr. Chen Guang	372,480.00	75,435.00	447,915.00
Mr. Zhang Junquan	290,808.00	53,417.00	344,225.00
Mr. Zhang Wenming	274,339.00	31,068.00	305,407.00
Mr. Zhu Pengtao (took office in 2017.5.26)	142,260.00	19,026.00	161,286.00
Mr. Xu Erming (an independent supervisor, resigns from 2017.5.26)	40,000.00		40,000.00
Subtotals of supervisors	1,568,587.00	255,518.00	1,824,105.00
3. Senior management			
Mr. Liu Zhiquan	458,600.00	76,572.00	535,172.00
Mr. Wang Dexing	1,103,730.00	232,841.00	1,336,571.00
Mr. Zhang Haiquan	439,400.00	72,319.00	511,719.00
Mr. Qu Zhe	439,400.00	72,319.00	511,719.00
Mr. Ai Lisong (Company Secretary)	328,084.00	61,726.00	389,810.00
Subtotals of senior managers	2,769,214.00	515,777.00	3,284,991.00
Total	5,987,601.00	998,486.00	6,986,087.00

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

X. RELATED PARTY AND TRANSACTION (CONTINUED)

(5) Transaction information for related party (Continued)

1. Continuing related transactions (Continued)

(7) Directors, Supervisors and Senior Management Compensation (Continued)

Among the five highest paid individuals, one (year 2016: 0) was also a senior executive of the company and their remuneration was disclosed as above. The total remuneration of the remaining 4 (year 2016: 5) persons is as follows:

Name	Position	Wages and other benefits	Retirement benefit plan contributions	Total
YanJun Zhang	Harbin Boiler Factory Co., Ltd. Vice Chairman and General Manager	996,700.00	170,068.00	1,166,768.00
XianFeng Fan	President of Harbin Boiler Factory Co., Ltd	930,400.00	156,068.00	1,086,468.00
YongLi Zhang	Deputy General Manager of Harbin Boiler Factory Co., Ltd.	882,900.00	135,729.00	1,018,629.00
QianZhuang Wang	Deputy Chairman and General Manager of Harbin Electric Machinery Co., Ltd.	839,300.00	167,279.00	1,006,579.00
Total		3,649,300.00	629,144.00	4,278,444.00

The above transaction (7) is a continuing connected transaction waived under Rule 14A.33 of the Listing Rules.

2. Connected Transaction

On September 4, 2017, the company issued “announcement (1) Connected Transaction in respect of the proposed issue of new domestic shares under the specific mandate and (2) proposed amendments to the articles of association. “The company and the Harbin Electric Group Co., Ltd. signed a “Shares Purchase Agreement for Domestic Shares”. The details are as follows:

Related party	Current period	Prior period
Harbin Electric Group Co., Ltd.	1,270,000,000	

The above transaction is a connected transaction under the provisions of Chapter 14A of the Listing Rules.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

X. RELATED PARTY AND TRANSACTION (CONTINUED)

(6) Account receivables and payables for related party

1. Account receivables

Items	Related party	Closing balance		Opening balance	
		Book balance	Bad debt preparation	Book balance	Bad debt preparation
Account receivables					
	Harbin Electric Group Jiamusi Electric Co., Ltd	40,000.00			
	Harbin Harbin Electric Industrial Development Corporation			30,000.00	
Payment in advanced					
	Harbin Haguo Industrial Development Corporation	33,300,000.00		25,000,000.00	
	Harbin Electric Group Acheng Relay Co., Ltd.	6,895,006.65			
	Harbin Haguo Power Station Spare Parts Co., Ltd.	1,003,995.00		837,500.00	
	Harbin Industrial Furnace Joint Venture	615,000.00		1,309,070.00	
	Harbin Electric Group Jiamusi Electric Co., Ltd	5,777.00			
	Harbin Harbin Property Management Co., Ltd.			91,500.00	
Other receivables					
	Harbin Electric Group Co., Ltd.	162,095,125.59		162,095,125.59	
	Harbin Harbin Electric Industrial Development Corporation	62,982,138.98		62,982,138.98	
	Harbin Sanlian Industrial Development Corporation	4,200,000.00		3,100,000.00	
	Harbin Electric Group Jiamusi Electric Co., Ltd.	3,003,751.55		3,000,000.00	
	Harbin Electric Group Acheng Relay Co., Ltd	1,077,707.44			
	Harbin Huitong Electric Power Engineering Co., Ltd.	280,310.65			
	Harbin Hadian Gas Station Co., Ltd	119,981.70			
	Harbin Haguo Boiler Container Engineering Co., Ltd	69,389.37			
	Harbin Industrial Furnace Joint Venture	29,400.00			
	Harbin Harbin Industry Comprehensive Service Management Co., Ltd	26,540.28			
	Shenzhen Hadong Huihua Industry and Trade Co., Ltd			1,351,930.00	1,351,930.00
	Harbin Haguo Industrial Development Corporation			57,560.00	
Interest payables					
	Harbin Haguo Industrial Development Corporation	239,250.00		251,212.50	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

X. RELATED PARTY AND TRANSACTION (CONTINUED)

(6) Account receivables and payables for related party (Continued)

2. Account payable Items

Items	Related party	Book balance	
		Closing balance	Opening balance
Absorb deposit			
	Harbin Electric Group Co., Ltd.	643,164,117.73	2,454,002,626.55
	Harbin Harbin Electric Industrial Development Corporation	66,762,998.90	92,346,578.17
	Harbin Haguo Industrial Development Corporation	35,394,557.94	50,990,469.33
	Jiamusi Motor Factory Co., Ltd	8,451,289.62	12,283,843.83
	Harbin Electric Group Acheng Relay Co., Ltd.	8,162,193.16	2,398,396.68
	Harbin Insulation Material Factory	6,206,267.11	31,742,758.06
	Harbin Electric Machinery Factory Hospital	5,922,789.08	1,295,877.54
	Harbin Harbin Industry Development Corporation	5,669,531.00	1,285,240.39
	Harbin Electric Group Jiamusi Electric Co., Ltd.	5,011,446.67	5,000,491.86
	Harbin Sanlian Industrial Development Corporation	2,943,617.96	6,547,807.32
	Harbin Steam Turbine Factory Hospital	2,824,316.40	1,090,204.86
	Harbin Boiler Factory Hospital	2,818,879.90	2,166,840.21
	Harbin Harbin Metal Component Co., Ltd	2,484,545.63	1,227,475.36
	Harbin Harbin Hospital Management Co., Ltd.	2,078,674.59	
	Harbin Harbin Property Management Co., Ltd.	1,480,628.49	2,583,496.14
	Harbin Harbin Industry Comprehensive Service Management Co., Ltd	1,290,320.33	1,762,584.37
	Heilongjiang Harbin Multi-Power Hydropower Development Co., Ltd.	897,146.87	
	Harbin Motor Factory Kindergarten	739,552.27	371,663.62
	Harbin Industrial Furnace Joint Venture	408,019.18	60,442.85
	Harbin Haguo Power Station Spare Parts Co., Ltd.	211,556.75	666,987.19
	Harbin Qingyuan Electric Material Co., Ltd.	96,579.66	2,517,175.07
	Harbin Haguo Industrial Development Corporation Kindergarten	5,825.49	1,329.86
	Harbin Harbin Materials Distribution Co.	2,894.96	1,191,766.64
	Harbin Haguo Property Co., Ltd.		394,797.94
	Harbin Harbin Real Estate Agent Co., Ltd.		241,827.84

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

X. RELATED PARTY AND TRANSACTION (CONTINUED)

(6) Account receivables and payables for related party (Continued)

2. Account payable Items (Continued)

Items	Related party	Book balance	
		Closing balance	Opening balance
Account payable			
	Harbin Harbin Metal Component Co., Ltd	10,622,444.87	13,121,603.00
	Harbin Haguo Power Station Spare Parts Co., Ltd.	6,565,595.05	7,040,873.12
	Harbin Electric Group Acheng Relay Co.,	5,369,155.79	
	Harbin Harbin Materials Distribution Co.	4,316,915.12	11,186,039.67
	Harbin Huitong Electric Power Engineering Co., Ltd.	2,686,460.92	
	Harbin Harbin Property Management Co., Ltd	1,787,920.00	1,348,355.00
	Harbin Haguo Industrial Development Corporation	1,632,910.00	356,000.00
	Harbin Industrial Furnace Joint Venture	1,075,218.64	502,293.11
	Jiamusi Motor Co., Ltd.	702,835.51	1,180,000.00
	Harbin Harbin Industry Development Corporation	640,981.30	937,997.30
	Harbin Haguo Boiler Engineering Technology Co., Ltd.	625,400.00	
	Harbin Beige Electrical Equipment Structure Co., Ltd.	278,008.65	
	Harbin Qingyuan Electric Material Co	128,502.43	
	Harbin Harbin Electric Industrial Development Corporation	111,158.50	1,520,158.50
Notes payables			
	Harbin Industrial Furnace Joint Venture	503,674.00	1,230,446.57
	Harbin Harbin Property Management Co., Ltd.		91,500.00
Deposit received			
	Harbin Haguo Power Station Spare Parts Co., Ltd.		792.00
Other receivables			
	Harbin Electric Group Co., Ltd.	8,820,251.60	1,925,651,747.00
	Harbin Harbin Industry Development Corporation	2,016,059.07	247,459.07
	Harbin Harbin Industry Comprehensive Service Management Co., Ltd.	89,123.00	
	GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd.		
Interest payables			
	Harbin Electric Group Co., Ltd.	4,086,954.84	
	Harbin Electric Group Jiamusi Electric Co., Ltd	143,550.00	
	Harbin Haguo Industrial Development Corporation	31,556.25	
	Harbin Sanlian Industrial Development Corporation	8,680.00	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

X. RELATED PARTY AND TRANSACTION (CONTINUED)

(7) Related party commitments

None

(8) Others

None

XI. COMMITMENTS AND CONTINGENCIES

(1) Important commitments

Has signed but did not commit to purchase or build assets

At the end of December 31, 2017, the Company had a large contractual expenditure of 143,721,100 yuan that had been signed but no acquisition or construction of assets occurred. The details are as follows:

Company	Unpaid contract amount <i>(ten thousand yuan)</i>	Expected investment period
Harbin Electric Co., Ltd. (Headquarters)	864.00	2018
Harbin Steam Turbine Factory Co., Ltd.	2,088.62	2018
Harbin Electric Power Equipment Co., Ltd	11,419.49	2018
Total	14,372.11	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(2) Contingencies

1. In-group and out-group guarantees

No.	Guaranteed	Guarantee			Category	Anti-guarantee method	Amount	Increasing in this year	Situation of Guaranteed	Overdue situation	Sued situation
		Name	Nature	Method							
	Total					1,419,096,172.19	460,000,000.00				
1	Harbin Electric Machinery Co., Ltd.	Harbin Steam Turbine Factory Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Performance guarantee	No counter guarantee	330,000,000.00	330,000,000.00	Normal operation	None	None
2	Harbin Electric Machinery Co., Ltd.	Harbin Electric Machinery Factory (Zhenjiang) Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Performance guarantee	No counter guarantee	130,000,000.00	130,000,000.00	Normal operation	None	None
3	Harbin Steam Turbine Factory Co., Ltd.	Harbin Boiler Factory Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Performance guarantee	No counter guarantee	160,154,600.00		Normal operation	None	None
4	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Other guarantee	No counter guarantee	189,578,768.18		Normal operation	None	None
5	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Performance guarantee	No counter guarantee	166,371,475.07		Normal operation	None	None
6	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Performance guarantee	No counter guarantee	147,672,920.00		Normal operation	None	None
7	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Other guarantee	No counter guarantee	117,040,379.67		Normal operation	None	None
8	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Performance guarantee	No counter guarantee	66,975,550.00		Normal operation	None	None
9	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Other guarantee	No counter guarantee	29,260,094.87		Normal operation	None	None
10	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Other guarantee	No counter guarantee	29,260,094.87		Normal operation	None	None
11	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Performance guarantee	No counter guarantee	22,579,119.49		Normal operation	None	None
12	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Other guarantee	No counter guarantee	19,964,577.04		Normal operation	None	None
13	Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	Harbin Electric Power Equipment Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Performance guarantee	No counter guarantee	4,290,000.00		Normal operation	None	None
14	Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	Harbin Electric Power Equipment Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Performance guarantee	No counter guarantee	5,220,852.00		Normal operation	None	None
15	Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	Harbin Electric Power Equipment Co., Ltd.	State-owned enterprises	joint responsibility guarantee	Performance guarantee	No counter guarantee	727,741.00		Normal operation	None	None

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(2) Contingencies (Continued)

2. Pending litigation

In 2017, there was a civil dispute between Harbin Steam Turbine Factory Auxiliary Machinery Engineering Co., Ltd., a three-tier company of the Company, and Dongfang Electric Henan Power Plant Auxiliary Machinery Manufacturing Co., Ltd., which did not pay its purchase price according to the contract, according to the Civil Ruling Paper of Lingbao City People's Court of Henan Province. "(2017) Yu 1882 2nd Republic of China 2891" was forced to freeze bank deposits of 5,000,000.00 yuan on August 29, 2017. In January 2018, after the two parties coordinated and settled, the lawsuit was revoked and the bank account was thawed.

XII. ITEMS AFTER BALANCE SHEET DATE

After the eighth session of ninth meeting of the company reviewed and passed the 2017 profit distribution plan, the board of directors proposed to distribute the company's 2017 final dividend of RMB0.015 per share (including the applicable tax rate).

XIII. OTHER IMPORTANT ITEMS

(1) Segment information

1. The determination basis and accounting policy of the report segment

According to the company's internal organizational structure, management requirements, and internal reporting system, six reporting divisions were identified: thermal power equipment and equipment divisions, hydropower equipment and equipment divisions, power station engineering service divisions, power plant auxiliary equipment and auxiliary products. Divisions, nuclear power product divisions, and AC & DC motors and other divisions. Each of the company's reporting divisions provides different products or services or operates in different regions. Since each segment requires different technologies or marketing strategies, the management of the company separately manages the operating activities of the various reporting segments and regularly evaluates the operating results of these reporting segments in order to decide to allocate resources to them and evaluate their performance.

Inter-segment transfer prices are determined on the basis of actual transaction prices, and expenses indirectly attributable to each segment are allocated among segments based on the proportion of income. Assets are allocated based on the operation of the segment and the location of the assets. Segment liabilities include liabilities that are attributable to the segment formed by the segment's operating activities. If the expenses related to liabilities shared by multiple operating segments are allocated to these operating segments, the shared liabilities are also allocated to these operating segments.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIII. OTHER IMPORTANT ITEMS (CONTINUED)

(1) Segment information (Continued)

2. Report Division Financial Information

(1) Segment assets, liabilities and income

Items	Thermal power equipment	Hydropower host equipment	Power station engineering services	Power station auxiliary equipment and ancillary products	Nuclear products	AC and DC motors and other	Total
Closing balance							
Reportable segment assets	41,212,539,999.63	4,621,011,351.10	6,651,596,886.48	3,020,134,669.35	8,114,465,554.50	6,582,095,472.16	70,201,843,933.22
Including: increase in amount of construction in progress in the current period	205,698,456.10	11,100,895.65	15,746,976.00	12,736,227.18	502,590,983.75	81,402,678.44	829,276,217.12
Purchased fixed assets and intangible assets	39,551,824.68	18,813,052.57	205,009,241.96	985,708.73	25,456,422.56	39,193,899.47	329,010,149.97
Reportable segment liabilities	34,634,317,661.74	2,229,206,421.05	5,884,095,242.01	2,316,900,005.18	6,304,818,582.81	4,993,809,765.82	56,363,147,678.61
Amount during this period							
Segment revenue							
Income from external customers	13,871,644,397.96	1,146,212,806.36	10,704,840,383.96	1,339,075,625.77	2,032,575,585.70	2,445,975,056.63	31,540,323,856.38
Income between segment	2,534,289,826.09		-141,400,613.00			22,799,084.22	2,415,688,297.31
Reportable segment profits	16,405,934,224.05	1,146,212,806.36	10,563,439,770.96	1,339,075,625.77	2,032,575,585.70	2,468,774,140.85	33,956,012,153.69
Reportable segment gross profit	2,371,509,963.21	182,328,452.21	490,768,642.94	195,206,172.08	519,357,241.58	594,919,083.22	4,354,089,555.24

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIII. OTHER IMPORTANT ITEMS (CONTINUED)

(1) Segment information (Continued)

2. Report Division Financial Information (Continued)

(1) Segment assets, liabilities and income (Continued)

Items	Thermal power equipment	Hydropower host equipment	Power station engineering services	Power station auxiliary equipment and ancillary products	Nuclear products	AC and DC motors and other	Total
Opening balance							
Reportable 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
Including: increase in amount of construction in progress in the current period	229,212,548.60	10,498,974.32	1,251,692.06	19,038,526.59	656,516,740.72	196,262,172.34	1,112,780,654.62
Purchased fixed assets and intangible assets	79,651,812.65	3,247,138.64	10,601,389.17	12,379,539.86	17,761,197.98	19,696,503.26	143,337,581.56
Reportable segment liabilities	31,926,028,088.07	3,511,695,625.85	6,841,646,490.62	2,557,255,351.24	5,999,714,106.18	5,906,267,939.92	56,742,607,601.88
Amount during previous period							
Segment revenue							
Income from external customer	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 reportable segment revenue	1,887,141,826.71		92,338,063.55			22,105,096.57	2,001,584,986.83
reportable segment revenue	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
reportable segment gross profit	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

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIII. OTHER IMPORTANT ITEMS (CONTINUED)

(1) Segment information (Continued)

2. Report Division Financial Information (Continued)

(2) Segment assets, liabilities and income

Items	Closing balance	Opening balance
Assets		
Reportable segment assets	70,201,843,933.22	69,327,575,135.59
Offset relevant contacts between divisions	-20,122,713,238.83	-19,045,066,245.01
Reportable segment net assets	50,079,130,694.39	50,282,508,890.58
Deferred tax assets	430,581,741.83	351,373,269.10
Other non-current assets		
Financial assets at fair value through profit or loss		
Restricted and pledged bank loans		
Bank deposit	12,155,831,808.52	13,700,127,972.66
Central bank deposit	747,561,319.78	784,356,734.69
Cash and cash equivalents	107,033,625.67	9,428,115.83
Unallocated headquarters and company assets	1,317,953,882.79	739,712,735.13
Total assets	64,838,093,072.98	65,867,507,717.99
Liability		
Reportable segment liabilities	56,363,147,678.61	56,742,607,601.91
Offset relevant contacts between divisions	-8,721,527,596.46	-8,566,004,447.68
Net reportable segment liabilities	47,641,620,082.15	48,176,603,154.23
Taxes payable	240,442,949.52	367,490,729.90
Deferred income tax liabilities	7,280,974.79	
Unallocated headquarters and corporate liabilities	806,597,387.90	2,680,999,078.38
Total liabilities	48,695,941,394.36	51,225,092,962.51

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIII. OTHER IMPORTANT ITEMS (CONTINUED)

(1) Segment information (Continued)

2. Report Division Financial Information (Continued)

(2) Segment assets, liabilities and income (Continued)

Items	Amount for this period	Amount for previous period
Revenue		
Income from external customers	31,540,323,856.38	30,929,420,698.72
Inter-segment revenue	2,415,688,297.31	2,001,584,986.83
Reportable segment revenue	33,956,012,153.69	32,931,005,685.55
Reportable segment gross profit	4,354,089,555.24	4,288,800,064.45
Offset segment losses	81,719,926.20	-13,745,380.35
Reportable segment gross profit from customers outside the group	4,272,369,629.04	4,302,545,444.80
Long-term equity investment income accounted for by the equity method	26,360,761.31	16,019,530.10
Interest income	488,136,436.30	422,613,875.81
Chinese government grant	96,282,405.05	102,771,108.59
Financial assets at fair value through profit or loss for the current period	-11,399,680.48	-5,807,970.07
Financial liabilities measured at fair value and whose changes are charged to profit or loss for the current period – cash flow hedges Interest expenses	266,495,807.13	279,976,261.24
Impairment losses for long-term assets such as fixed assets and intangible assets	29,642,866.59	28,413,362.62
Unallocated other income and net income	97,359,627.28	103,950,550.06
Unallocated headquarters and corporate expenses	4,329,604,099.85	3,976,533,774.48
Total profit	343,366,404.93	657,169,140.95

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIII. OTHER IMPORTANT ITEMS (CONTINUED)

(1) Segment information (Continued)

2. Report Division Financial Information (Continued)

(3) Regional information

Items	Revenue from external customers	
	2017	2016
1. Domestic (China)	20,937,172,169.16	20,827,780,149.18
2. Overseas :		
– Pakistan Islamic Community	3,883,858,635.49	2,736,523,125.80
– Republic of Turkey	1,771,972,533.17	2,082,664,891.96
– The United Arab Emirates	1,687,649,086.59	
– Republic of Ecuador	1,164,629,635.62	2,351,295,259.49
– Bangladesh People's Republic	617,243,022.29	631,604,076.94
– Republic of Indonesia	314,662,168.56	909,610,140.27
– Other countries	1,163,136,605.50	1,389,943,055.08
Overseas subtotals	10,603,151,687.22	10,101,640,549.54
Total	31,540,323,856.38	30,929,420,698.72

(2) There are no other important issues that have an impact on investor decision-making in this period

(3) Others

The Ministry of Finance revised the "Accounting Standards for Business Enterprises No. 14 – Revenue" in 2017, and the revised guidelines will come into effect on January 1, 2018;

In 2017, the Ministry of Finance revised the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Enterprise Accounting Standards No. 23 – Transfer of Financial Assets" and "Accounting Standards for Business Enterprises No. 24 – Hedge Accounting". The revised guidelines will come into effect on January 1, 2018.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES

(The following amount units are RMB yuan unless otherwise specified)

(1) Account receivables

1. Category

Category	Closing balance					Opening balance				
	Book balance		Bad debt preparation			Book balance		Bad debt preparation		
	Amount	Rate (%)	Amount	Provision		Amount	Rate (%)	Amount	Provision	
				rate (%)	Book value				rate (%)	Book value
Account receivables with significant single amount and with separate provision for bad debts										
Receivables for provision for bad debts based on a combination of credit risk characteristics	1,240,860,274.63	99.99	249,551,461.25	20.11	991,308,813.38	508,893,962.00	99.97	204,017,180.13	40.09	304,876,781.87
Receivables with insignificant single amounts but with separate provision for bad debts	85,000.00	0.01			85,000.00	159,000.00	0.03			159,000.00
Total	1,240,945,274.63		249,551,461.25		991,393,813.38	509,052,962.00		204,017,180.13		305,035,781.87

In the portfolio, accounts receivable for bad debt provision according to aging analysis method :

Age	Closing balance			Opening balance		
	Trade receivables	Bad debt preparation	Provision rate	Trade receivables	Bad debt preparation	Provision rate
Within 1 year	966,098,657.33	48,304,932.87	5.00	112,000,101.94	5,600,005.10	5.00
1-2 years	48,638,470.52	12,159,617.63	25.00	170,564,549.24	42,641,137.31	25.00
2-3 years	25,105,353.96	12,552,676.98	50.00	108,403,995.25	54,201,997.63	50.00
3-4 years	108,403,995.25	86,723,196.20	80.00	14,013,800.00	11,211,040.00	80.00
4-5 years	14,013,800.00	11,211,040.00	80.00	67,742,577.38	54,194,061.90	80.00
Over 5 years	78,599,997.57	78,599,997.57	100.00	36,168,938.19	36,168,938.19	100.00
Total	1,240,860,274.63	249,551,461.25		508,893,962.00	204,017,180.13	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(1) Account receivables (Continued)

2. *Receivables that are not individually significant at the end of the period but are individually provisioned for bad debts:*

Account receivables	Closing balance			
	Trade receivables	Bad debt preparation	Provision rate	Provision reason
Harbin Electric International Engineering Co., Ltd.	85,000.00			Related parties are not accrued
Total	85,000.00			

3. *Current provision, reversal or recovery of bad debts*

The bad debt provision of this year was CNY45,534,281.12.

4. *The top five receivables according to the closing balance of arrears*

Company	Closing balance		
	Trade receivables	rate (%)	Bad debt preparation
China Nuclear Power Engineering Co., Ltd.	355,407,801.14	28.64	17,770,390.06
Huadian International Material Co., Ltd.	240,542,610.00	19.38	12,027,130.50
Jiangsu Huadian Kunshan Thermal Power Co., Ltd.	179,839,908.40	14.49	8,991,995.42
Shandong Nuclear Power Co., Ltd.	89,958,041.06	7.25	4,497,902.05
Huaneng Lingang (Tianjin) Gas Thermal Power Co., Ltd.	61,754,888.02	4.98	49,379,859.40
Total	927,503,248.62	74.74	92,667,277.43

5. *Receivables derecognized due to transfer of financial assets*

No accounts receivable due to transfer of financial assets during the current period.

6. *Transfer of accounts receivable and continued involvement in the formation of assets and liabilities*

The amount of assets and liabilities that have not been transferred during the current period and continue to be involved in the formation.

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(2) Other receivables

1. Category of other receivables

Category	Closing balance					Opening balance				
	Book balance		Bad debt preparation			Book balance		Bad debt preparation		
	Amount	Rate (%)	Amount	Provision rate (%)	Book value	Amount	Rate (%)	Amount	Provision rate (%)	Book value
Other receivables that are individually significant and individually provided for bad debt provision	983,385,410.19	97.90	12,438,741.38	1.26	970,946,668.81	1,575,459,734.31	99.34	12,438,741.38	0.79	1,563,020,992.93
Other receivables with bad debt provision according to credit risk characteristics	13,318,739.89	1.33	2,842,449.37	21.34	10,476,290.52	4,608,249.77	0.29	1,954,346.90	42.41	2,653,902.87
Other receivables with insignificant single amounts but with separate provision for bad debts	7,818,352.20	0.78	1,891,655.36	24.20	5,926,696.84	5,831,347.39	0.37	458,242.40	7.86	5,373,104.99
Total	1,004,522,502.28		17,172,846.11		987,349,656.17	1,585,899,331.47		14,851,330.68		1,571,048,000.79

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(2) Other receivables (Continued)

1. Category of other receivables (Continued)

Other receivables that are individually significant at the end of the period and are individually provided for bad debts

Other receivables	Closing balance			
	Other receivable	Bad debt preparation	Provision rate (%)	Provision reason
Gas Engine Division Deposit	2,696,105.38	2,696,105.38	100.00	Estimated uncollectible
Shenzhen Hadong Huihua Industry and Trade Co., Ltd.	1,351,930.00	1,351,930.00	100.00	Estimated uncollectible
Other receivables Jiangbei Project Department	8,390,706.00	8,390,706.00	100.00	Estimated uncollectible
Harbin Electric Machinery Co., Ltd.	13,000,000.00			Related parties are not accrued
Harbin Power Technology Trade Co., Ltd.	10,168,577.33			Related parties are not accrued
Harbin Steam Turbine Factory Co., Ltd.	190,606,016.97			Related parties are not accrued
Chengdu Sanlia Chinese Ceramics Co., Ltd.	16,386,473.85			Related parties are not accrued
Harbin Electric Power Equipment Co., Ltd.	98,060,521.36			Related parties are not accrued
Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	17,605,358.18			Related parties are not accrued
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd.	622,919,721.12			Related parties are not accrued
Harbin Sanlian Industrial Development Corporation	2,200,000.00			Related parties are not accrued
Total	983,385,410.19	12,438,741.38		

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(2) Other receivables (Continued)

1. Category of other receivables (Continued)

In the portfolio, other receivables with provision for bad debts based on aging analysis :

Age	Closing balance			Opening balance		
	Other receivables	bad debt preparation	Provision rate	Other receivables	bad debt preparation	Provision rate
Within 1 year	9,257,523.87	463,353.19	5.00	2,780,403.24	139,020.16	5.00
1-2 years	2,234,005.49	558,501.37	25.00	8,293.45	2,073.36	25.00
2-3 years	8,293.45	4,146.73	50.00	12,345.00	6,172.50	50.00
3-4 years	12,345.00	9,876.00	80.00			
4-5 years				636.00	508.80	80.00
Over 5 years	1,806,572.08	1,806,572.08	100.00	1,806,572.08	1,806,572.08	100.00
Total	13,318,739.89	2,842,449.37	100.00	4,608,249.77	1,954,346.90	100.00

Other receivables with insignificant single amount at the end of the period and separately provision for bad debts

Other receivables	Closing balance			
	Other receivables	Bad debt preparation	Provision rate (%)	Provision reason
Harbin Boiler Factory Co., Ltd.	25,917.00			No provision for related party
Harbin Electric Power Generation Equipment National Engineering Research Center Co., Ltd	90,000.00			No provision for related party
Reserve fund	7,418,435.20	1,870,921.76	25.22	Individual withdrawal based on recyclability
Harbin Jinxin Electric Co., Ltd.	284,000.00	20,733.60	7.30	Individual withdrawal based on recyclability
Total	7,818,352.20	1,891,655.36		

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(2) Other receivables (Continued)

2. *Withdrawal, reversal or recovery of bad debts*

The bad debt provision of this year was CNY 2,321,515.43.

3. *Actual write-off of other receivables*

There is no actual write-off of other receivables in this period.

4. *The top five other receivables by year-end balance of arrears*

Company	Nature	Closing balance	Age	Proportion of total accounts receivable at year-end balance (%)	Closing balance Impairment preparation
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd.	Exchanged	624,555,033.82	1-2 years, 2-3 years, 3-4 years, 4-5 years, over 5 years	62.17	
Harbin Steam Turbine Factory Co., Ltd.	Exchanged	190,606,016.97	Less than a year, 4-5, years, over 5 years	18.97	
Harbin Electric Power Equipment Co., Ltd.	Exchanged	98,060,521.36	Less than a year, 1-2 years, 2-3 years, over 5 years	9.76	
Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	Exchanged	17,605,358.18	Less than a year, 1-2 years, 2-3 years, over 5 years	1.75	
Chengdu Sanlia Chinese Ceramics Co., Ltd	Exchanged	16,386,473.85	3-4 years	1.63	
Total		947,213,404.18		94.29	

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(3) Long term equity investment

Items	Closing balance			Opening balance		
	Booking balance	Impairment preparation	Booking value	Booking balance	Impairment preparation	Booking balance
Invest in subsidiaries	5,293,548,202.18	3,000,000.00	5,290,548,202.18	4,958,102,140.16	3,000,000.00	4,955,102,140.16
Investment in associates and joint ventures	135,003,849.87		135,003,849.87	128,304,838.06		128,304,838.06
Total	5,428,552,052.05	3,000,000.00	5,425,552,052.05	5,086,406,978.22	3,000,000.00	5,083,406,978.22

1. Investment in Subsidiary

investee Company	Opening balance	Current increase	Current loss	Closing balance	Current provision impairment preparation	Impairment preparation Closing balance
Harbin Electric Group Finance Co., Ltd.	837,122,531.11			837,122,531.11		
Harbin Boiler Factory Co., Ltd.	716,178,892.28			716,178,892.28		
Harbin Steam Turbine Factory Co., Ltd.	692,422,891.68			692,422,891.68		
Harbin Electric Power Equipment Co., Ltd.	687,206,900.00	335,446,062.02		1,022,652,962.02		
Harbin Electric Machinery Co., Ltd.	678,546,878.74			678,546,878.74		
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd.	571,568,274.84			571,568,274.84		
Harbin Electric International Engineering Co., Ltd.	500,000,000.00			500,000,000.00		
Harbin Electric Power Generation Equipment National Engineering Research Center Co., Ltd.	120,004,550.35			120,004,550.35		
Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	97,002,844.08			97,002,844.08		
Harbin Harbin Electric Company	25,780,234.61			25,780,234.61		
Harbin Power Technology Trade Co., Ltd.	15,000,000.00			15,000,000.00		
Chengdu Sanliao Porcelain Co., Ltd.	14,268,142.47			14,268,142.47		
Shenzhen Hadong Huihua Industry and Trade Co., Ltd.	3,000,000.00			3,000,000.00		3,000,000.00
Total	4,958,102,140.16	335,446,062.02		5,293,548,202.18		3,000,000.00

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(3) Long term equity investment (Continued)

2. Investment in affiliates

Investee	Opening balance	Impairment	Add investment	Reduce investment	change in current period			Declare cash Dividend or profit	Other	Closing balance	-write-off impairment	Closing balance for impairment
					Confirmed under the equity method Investment gains and losses	Other comprehensive income adjustment	Changes in other equity					
1. Affiliates												
GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd.	128,304,838.06				24,466,436.81			17,767,425.00		135,003,849.87		
Total	128,304,838.06				24,466,436.81			17,767,425.00		135,003,849.87		

Explain, detail will be showed in Note V.(7).

(4) Operating income and cost

Items	Current income		The amount of the previous period	
	Income	Cost	Income	Cost
Main business	3,005,553,573.93	2,861,617,494.39	1,573,243,441.60	1,580,059,558.86
Thermal power equipment	1,939,362,906.38	1,799,962,083.25	764,959,717.68	771,775,834.94
Nuclear Power Project	1,066,190,667.55	1,061,655,411.14	808,283,723.92	808,283,723.92
Other business	28,240,545.08	18,931,297.49	21,212,252.02	18,428,424.05
Use license fee	373,609.12		1,197,073.58	
Other	27,866,935.96	18,931,297.49	20,015,178.44	18,428,424.05
Total	3,033,794,119.01	2,880,548,791.88	1,594,455,693.62	1,598,487,982.91

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XIV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(5) Investment income

Items	Current period amount	The amount of the previous period
Long-term equity investment income calculated by cost method	128,173,458.25	117,589,550.75
Long-term equity investment income accounted for by the equity method	24,466,436.81	15,029,245.18
Investment income from disposal of long-term equity investment		29,041,300.00
Financial assets at fair value through profit or loss over the period of holding		
Investment gains from disposal of financial assets at fair value through profit or loss		
Investment income from held-to-maturity investment during holding period		
Investment income of available-for-sale financial assets during holding	5,894,980.61	14,054,878.27
Disposal of investment income from held-to-maturity investments		
Investment income from disposal of available-for-sale financial assets		
After gaining control, the remaining equity is remeasured at fair value.		
Other		
Total amount	158,534,875.67	175,714,974.20

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XV. ADDITIONAL MATERIALS

(The following amount units are RMB yuan unless otherwise specified)

(1) Current non-recurring profit and loss schedule

Items	Amount	Explain
Profit of non-current asset disposal	-68,419.07	
Tax refunds, deductions for unauthorized or non-approved documents		
The government subsidies included in the current profit and loss (except for government subsidies that are closely related to the business of the company and are rationed or quantified according to national uniform standards)	50,539,789.12	
Including funds occupation fees charged to non-financial enterprises included in current profits and losses		
The investment costs of the subsidiaries, joint ventures and joint ventures obtained by the enterprise are less than the gains from the fair value of the identifiable net assets of the investee when the investment is obtained.		
Non-monetary assets exchange gains and losses		
Gains or losses from entrusting others to invest in or manage assets		
Due to force majeure factors, such as the provision for the impairment of assets that are subject to natural disasters		
Debt restructuring gains and losses	325,314.71	
Corporate restructuring costs, such as expenditures for resettlement of employees, integration costs, etc.		
The fair value of the transaction price exceeds the fair value gain or loss from the fair value of the transaction.		
Net profit and loss for the current period from the beginning of the company's business combination to the combined date under the same control		
Gains and losses from contingent events that are not related to the normal business of the company		

NOTES TO 2017 FINANCIAL STATEMENTS (CONTINUED)

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

XV. ADDITIONAL MATERIALS

(1) Current non-recurring profit and loss schedule (Continued)

Items	Amount	Explain
Except for the effective hedging business related to the company's normal business operations, the fair value changes arising from transactional financial assets and transactional financial liabilities and the disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets. Investment income obtained		
Reversal of impairment provision for receivables that was individually tested for impairment		
External gains and losses from entrusted loans		
Gains and losses arising from changes in the fair value of investment real estate subsequently measured using the fair value model		
According to the requirements of laws and regulations such as taxation and accounting, the one-off adjustment of current profit and loss will affect the current profit		
Trustee income from trusteeship		
Other non-operating income and expenses	18,454,244.51	
Other profit and loss items that meet the definition of non-recurring profit and loss	25,721,172.72	
Total non-operating profit or loss impact on total profit	94,972,101.99	
Income tax impact	-2,248,792.51	
The impact of minority shareholders' equity	-8,593,716.33	
Non-recurring profit and loss impact attributable to parent company	84,129,593.15	

(2) Return on equity and earnings per share

Profit	Weighted average return on net assets (%)	Earning per share (yuan)	
		Basic earning per share	Diluted earnings per share
Net profit attributable to common shareholders of the company	1.44	0.14	0.14
Net profit attributable to common shareholders of the company after deducting non-recurring gains and losses	0.82	0.08	0.08

Harbin Electric Co., Ltd.
March 18, 2018

DISCLOSURE OF SIGNIFICANT EVENTS

PRODUCTS & SERVICES

In March, the Company entered into an agreement with GE (China) Co., Ltd. in relation to heavy gas turbine joint venture project, pursuant to which both parties agreed to establish a gas turbine base in Qinghuangdao, Hebei Province, for the purpose of jointly pushing forward the research and manufacturing of heavy gas turbines in China. (Such joint venture project should come into effect upon the approval of the board of directors of both parties)

In May, the Company's independently developed two 660 MW supercritical coal-fired boilers for Pakistan Sahiwal Power Station were put into operation successfully, becoming the first on-service energy project along the Sino-Pakistan Economic Corridor concerning the "Belt and Road" initiative.

In July, three steam generators of the first reactor nuclear power unit of HPR1000 (華龍一號) undertaken and manufactured by the Group and designed for exporting overseas completed the ex-factory acceptance and was successfully delivered.

As of August, the world's four largest-capacity 9HA-class gas turbine units which were constructed by the Group for Pakistan BHIKIKI 1180MW and BALLOKI 1223MW Combined Cycle Power Plant Projects all passed the 168-hour reliability test run, setting multiple records.

In December, Jarud Unit 2, the world's first 300-megavar fully air-cooled phase modifier developed by the Group with fully independent intellectual property rights, was successfully connected to the grid at a time; this made the Group the first enterprise with manufacturing capability of the 300-megavar fully air-cooled phase modifier, thereby successfully stretching its industrial chains to the power transmission equipment.

In December, the world's first HPR1000 (華龍一號) main pump motor designed and manufactured by the Group itself smoothly underwent the testing, which made the Group the first manufacturer with a full mastery of key technologies of HPR1000 (華龍一號) main pump motors and independent intellectual property rights.

In December, coal-fired coupled garbage power generation technology of the Group was approved in the review organized by the National Energy Administration (NEA) of the PRC, becoming the first coal-fired coupled garbage power generation technology approved by NEA.

DISCLOSURE OF SIGNIFICANT EVENTS (CONTINUED)

SIGNIFICANT CONTRACTS

Significant contracts signed by the Group in 2017 were set out as follows:

Time of signing	Name of project
January	Contract for the provision of steam turbines and generators for Guohua Jinjie 2×660MW Super Supercritical Project phase III
February	Contract for the provision of three major machines and their auxiliary equipment for 2×1000MW project by Gansu Electric Power Investment Changle Power Generation Company Limited (甘肅電投常樂發電有限責任公司)
February	Contract for the provision of boilers and their auxiliary equipment for Indonesia Sumsel No. 1 2×350 MW coal-fired Power Generation Project by CSEC Guohua
February	Contract for the provision of 3×200MW water turbine generators for Guangxi Dateng Gorge Project
April	Contract for the provision of 4×350MW supercritical steam turbines and generator units for Sichuan Electric Power Design&Consulting Co., Ltd. (in Zhenfeng County)
April	Contract for the provision of one set of 9H-class 650MW gas turbine generator unit for Tianjin Huadian Junliangcheng Project Phase VI
May	Contract for the provision of 4×112.5MW water turbine generator units for Guinea Souapiti Project
May	Contract for the provision of 2×350MW supercritical steam turbines and generators for Energy China Anlong (中能建安龍)
June	Contract for the provision of 3×400MW water turbine generator units for Ethiopian Millennium (埃塞俄比亞千禧) Project
June	Contract for the provision of feed pumps and circulating pumps for Units 3/4, Sanmen of China National Nuclear Corporation (CNNC)
August	Contract for the provision of three 2×350MW supercritical major machines and their auxiliary equipment for Dalian Guohong Pulandian Power Plant (大連國宏普蘭店)
September	Contract for the provision of nuclear-shielding main pump motors for unit 1/2# of Shenyang Blower Works Group (Lianjiang)
October	Contract for the provision of services for Operation and Maintenance of Pakistan BHIKIKI 1180MW Combined Cycle Power Station Project

DISCLOSURE OF SIGNIFICANT EVENTS (CONTINUED)

Time of signing	Name of project
October	Contract for the provision of equipment for Langfang 9F-class Gas-fired Cogeneration Project of CPI Group
October	Contract for the provision of three major machines for CSEC Fugu Power Plant 2×660MW Project Phase II
November	Contract for the provision of three major machines for Hepusheng (Ningxia) (合普生(寧夏)) 6×200MW Project
November	Contract for the provision of 8×1000MW water turbine generator units for Baihetan Power Plant of China Three Gorges Corporation

OTHER EVENTS

In May, the Company held its annual general meeting to complete the appointment of members of the new board of directors and board of supervisors.

In September, the Company entered into a Domestic Shares Subscription Agreement with Harbin Electric Corporation (HE), its controlling shareholder, pursuant to which, the Company has agreed to issue and HE has agreed to subscribe in cash for Domestic Shares at a total subscription price of approximately RMB1.27 billion. After approved by the State-owned Assets Supervision and Administration Commission of the State Council, the extraordinary general meeting and general meeting for holders of H Shares of the Company, the acquisition of domestic shares was completed smoothly in January 2018, and thus the Company has a private placement of 329.717 million domestic shares to HE and raised approximately RMB1.27 billion.

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
The People's Republic of China
Unified social credit code: 91230100127575573H

OFFICE ADDRESS OF THE COMPANY

1399 Chuangxinyi Road
Songbei District
Harbin
Heilongjiang Province
The 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 (special general partnership)
28th floor, Maotai Building, Yard 29,
Middle of North 3rd Ring Road Xicheng District, Beijing
Postcode: 100029

LEGAL ADVISORS

as to PRC Law
HAIWEN & PARTNERS
Room 1016, Beijing Silver Tower
No. 2, Dongsanhuan North Road
Chaoyang District
Beijing
The People's Republic of China

LISTING INFORMATION

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

INFORMATION ON THE COMPANY (CONTINUED)

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
The 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 2017 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 2017 will be held at Conference Room of the Company located at Harbin, Heilongjiang Province, the People’s Republic of China on Friday, 25 May 2018 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 31 December 2017;
2. To consider and approve the Report of the Board of Supervisors for the year ended 31 December 2017;
3. To consider and approve the audited accounts and the auditor’s report for the period from 1 January 2017 to 31 December 2017;
4. To declare the 2017 final dividend of RMB0.015 per share (appropriate tax included) to be paid on 25 July 2018;
5. To re-appoint BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) as auditor of the Company for the 2018 financial statements of the Company and authorize the Board of Directors of the Company to fix its remuneration;
6. To re-elect Mr. Tian Min as independent non-executive director of the Company, with annual remuneration of RMB60,000;

AS SPECIAL BUSINESS

7. To grant the Board of the Company the authority to appoint any person either to fill a casual vacancy or as an addition to the Board, his/her term of office shall expire at the conclusion of the next general meeting of the Company;
8. To authorize the Board of the Company to carry out one-off repurchase or repurchase by tranches of H shares of not more than 10% of the total issued H shares of the Company at the date of passing this resolution through the Stock Exchange of Hong Kong Limited as deemed appropriate timing. The valid term of the authorization is 12 months commencing from the date of passing such resolution or until the conclusion of the first AGM after passing such resolution or its revocation or alternation through a special resolution at a general meeting, whichever is the earliest;
9. Conditional upon the above resolution to repurchase shares being passed and implemented, the Board shall be authorized to make necessary amendments to clause 16 and clause 17 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 repurchase of shares.

By Order of the Board
Harbin Electric Company Limited
Ai Li-song
Company Secretary

Harbin, the PRC, 10 April 2018

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

Registered Address:

Block 3, Nangang High Technology Production Base
Harbin, Heilongjiang Province
The People's Republic of China

Correspondence Address:

1399 Chuangxinyi Road, Songbei District
Harbin, Heilongjiang Province
The 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, 25 April 2018 to Friday, 25 May 2018 (both days 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 transfer documents 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, 24 April 2018.
2. For the purpose of determining Shareholders' entitlement to the 2017 final dividend, the register of members of the Company will be closed from Monday, 11 June 2018 to Friday, 15 June 2018 (both days inclusive), during which period no transfer of shares will be registered. Shareholders whose names appear on the register of members as at Monday, 11 June 2018 are qualified for the 2017 final dividend which will be paid on Wednesday, 25 July 2018. In order to be qualified for the 2017 final dividend, all duly completed transfer documents 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, 8 June 2018.
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, 4 May 2018.
4. A Shareholder entitled to attend and vote at the AGM is entitled to appoint one or more persons (whether a Shareholder or not) as his/her proxy to attend and vote on his/her 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 lodged at the correspondence address of the Company not less than 48 hours before the time appointed for holding the AGM.



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