SUMMARY CONSOLIDATED INCOME STATEMENTS

([illegible] .)

Items		Jan–Jun 2016	Jan–Jun 2015
I. Total operating income		**14,975,830,143.82**	12,132,563,481.45
Including: Operating income	*3*	**14,794,245,118.85**	11,951,040,112.86
Interest income		**181,554,669.03**	181,513,968.73
Insurance premiums earned		**—**	—
Handling charges and commission income		**30,355.94**	9,399.86
II. Total operating cost		**14,764,243,090.19**	12,353,877,894.70
Including: Operating cost		**13,007,447,060.66**	10,623,959,231.59
Interest cost		**6,886,583.21**	9,077,640.63
Handling charges and commission expenses		**13,019.55**	12,684.49
Refund of insurance premiums		**—**	—
Net payments for insurance claims		**—**	—
Net provision for insurance contracts		**—**	—
Commissions on insurance policies		**—**	—
Cession charges		**—**	—
Business taxes and surcharges		**49,440,161.95**	46,906,789.86
Selling and distribution expenses		**262,557,267.69**	264,503,198.22
General and administrative expenses	*4*	**948,901,640.62**	915,233,234.50
Financial expenses		**83,384,749.24**	89,894,855.88
Assets impairment losses	*5*	**405,612,607.27**	404,290,259.53
Add: Income from changes in fair value (loss listed as"–")		**80,871,846.14**	–311,336,162.24
Investment income (loss listed as "–")		**–126,303,569.87**	650,866,921.01
Including: investment income in associates and joint ventures		**–11,219,150.71**	–1,164,121.22
Foreign exchange gains (loss listed as"–")		**—**	—
III. Operating profit (loss listed as "–")		**166,155,329.90**	118,216,345.52
Add: Non–operating income		**50,353,669.24**	28,268,983.68
Including: Gains from disposal of			

SUMMARY CONSOLIDATED CASH FLOW STATEMENTS

([illegible] .)

Items	Jan–Jun 2016	Jan–Jun 2015
I. Cash Flows from operating activities		
Cash received from sales of goods or rendering of services	**13,325,461,120.95**	

Items	Jan–Jun 2016	Jan–Jun 2015
II. Cash flows from investing activities		
Cash received from disposal of investments	**2,380,909,369.81**	3,571,819,383.66
Cash received from returns on investments	**27,758,390.79**	73,936,521.22
Net cash received from disposal of fixed asses, intangible assets and other long–term assets	**371,515.10**	317,768.03
Net cash received from disposal of subsidiaries and other business units	**164,120,875.01**	2,800,000.00
Cash received relating to other investing activities	**103,275,466.68**	73,618,094.24
Sub–total of cash inflows	**2,676,435,617.39**	3,722,491,767.15
Cash paid for purchase and construction of fixed assets, intangible assets and other long–term assets	**425,972,867.91**	278,462,465.38
Cash paid for acquisition of investments	**1,770,115,643.84**	3,266,852,852.66
Net increase in pledge loans	**—**	—
Net cash paid for acquisition of subsidiaries and other business units	**—**	—
Cash paid relating to other investing activities	**205,606,424.36**	–29,807,770.96
Sub–total of cash outflows	**2,401,694,936.11**	3,515,507,547.08
Net cash flows from investing activities	**274,740,681.28**	206,984,220.07
III. Cash flows from financing activities		
Cash received from capital contributions	**20,000,000.00**	—
Including: Cash received from minority shareholders' capital contributions to subsidiaries	**20,000,000.00**	—
Cash received from borrowings	**91,360,000.00**	288,536,385.05
Cash received from issue of bond	**—**	—
Cash received relating to other financing activities	**150,006,738.18**	40,000,000.00
Sub–total of cash inflows	**281,366,738.18**	328,536,385.05
Cash repayments of borrowings	**736,766,366.38**	327,156,761.54
Cash payments for interest expenses and distribution of dividends or profits	**186,511,568.31**	236,908,191.22
Including: Subsidiaries' cash payments for distribution of dividends or profits to minority shareholders	**—**	10,990,313.80
Cash paid relating to other financing activities	**–4,898,184.16**	–1,765,984.63
Sub–total of cash outflows	**918,379,750.53**	573,289,281.93
Net cash flows from financing activities	**–637,013,012.35**	–244,752,896.88

Items	**Jan–Jun 2016**	Jan–Jun 2015
IV. Effect of foreign exchange rate changes on cash and cash equivalents	**10,505,915.64**	–2,017,510.17
V. Net increase/ (decrease) in cash and cash equivalents	**–2,646,698,165.40**	–366,936,999.93
Add: Cash and cash equivalents at beginning of the period	**17,178,496,464.76**	13,563,036,710.58
VI. Cash and cash equivalents at end of the period	**14,531,798,299.36**	13,196,099,710.65

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

([illegible] .)

	January to June in 2016											
	Shareholder's Equity attributable to parent company											
Items	Paid-in Capital(Share capital)"	Other equity instruments: preference shares	Other equity instruments: perpetual debts	Other equity instruments: others	Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	undistributed profits	Minority equity	Total equity
I. Balance at the end of prior year	1,376,806,000.00	–	–	–	2,749,914,774.17	–	-321,038,700.14	11,122,854.40	786,529,945.86	–	8,104,055,926.70	1,209,491,054.28	13,916,881,855.27
Add: Changes in accounting policies													–
Corrections of prior period errors													–
Business combination under common control													–
Others													–
II. Balance at the beginning of the year	1,376,806,000.00	–	–	–	2,749,914,774.17	–	-321,038,700.14	11,122,854.40	786,529,945.86	–	8,104,055,926.70	1,209,491,054.28	13,916,881,855.27
III. Increases/decreases in current year ("–"decreases)	–	–	–	–	4,803,061.44	–	117,938,670.28	4,753,060.38	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	January to June in 2015												
	Shareholder's Equity attributable to parent company												
Items	Paid–in Capital (Share capital)	Other equity instruments			Capital reserves	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk provision	undistributed profits	Minority equity	Total equity
		preference shares	perpetual debts	others									
I. Balance at the end of prior year	1,376,806,000.00	—	—	—	2,777,725,426.88	—	–236,065,084.33	7,958,663.67	780,503,096.67	—	7,968,943,488.04	1,329,180,388.12	14,005,051,979.05
Add: Changes in accounting policies													—
Corrections of prior period errors													—
Business combination under common control													—
Others													—
II. Balance at the beginning of the year	1,376,806,000.00	—	—	—	2,777,725,426.88	—	–236,065,084.33	7,958,663.67	780,503,096.67	—	7,968,943,488.04	1,329,180,388.12	14,005,051,979.05
III. Increases/decreases in current year ("—" decreases)	—	—	—	—	–24,953,055.75	—	139,975,029.59	4,831,191.83	—	—	40,989,717.45	–90,057,959.93	70,784,923.19
(I) Total comprehensive income							139,975,029.59				96,061,957.45	–89,188,102.03	146,848,885.01
(II) Shareholders' contribution and withdrawal	—	—	—	—	–24,953,055.75	—	—	—	—	—	—	—	–24,953,055.75
i. Capital contributed by owners													—
ii. Capital contributed by other equity instruments holders													—
iii. The amount of share –based payments recorded in owners' equity													—
iv. Others					–24,953,055.75								–24,953,055.75
(III) Profit distribution	—	—	—	—	—	—	—	—	—	—	–55,072,240.00	–1,855,126.63	–56,927,366.63
i. Appropriations to surplus reserves													—
ii. Appropriations to general risk provisions										—	—		—
iii. Distributions to shareholders											–55,072,240.00	–1,855,126.63	–56,927,366.63
iv. Others													—
(IV) Transfers within owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	—
i. Capital transferred from capital reserves					—								—
ii. Capital transferred from surplus reserves									—				—
iii. Recovery of losses by surplus reserve									—		—		—
iv. Others													—
(V) Special reserves	—	—	—	—	—	—	—	4,831,191.83	—	—	—	985,268.73	5,816,460.56
i. Extraction in current period								10,685,936.77				1,039,650.20	11,725,586.97
ii. Use in current period								–5,854,744.94				–54,381.47	–5,909,126.41
(VI) others													—
IV. Balance at the end of the period	1,376,806,000.00	—	—	—	2,752,772,371.13	—	–96,090,054.74	12,789,855.50	780,503,096.67	—	8,009,933,205.49	1,239,122,428.19	14,075,836,902.24

1. BASIC INFORMATION OF THE COMPANY

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

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

Industry: Power generation equipment manufacturing industry.

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

2. ACCOUNTING POLICIES

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

as of June 30, 2016, The accounting policies and methods used in the consolidated financial statements and the preparation of the consolidated financial statements were identical with of 2015 December 31 year annual financial statements according to the uniform.

3. INCOMES AND DIVISION'S DOCUMENTS

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

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

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

2) financial information of divisions

(1)

Items	Thermal power host devices	Water and electricity host devices	Plant engineering services	Power plant auxiliary and supporting products	Ac/dc motors and others	Total
2016.6.30						
Total assets of divisions	**46,962,613,966.48**	**6,638,833,143.75**	**6,482,459,325.22**	**2,678,035,024.84**	**5,650,713,837.65**	**68,412,655,297.94**
Total liabilities of divisions	**40,067,953,131.70**	**3,872,623,133.85**	**5,917,611,691.78**	**2,092,860,874.61**	**4,832,544,958.12**	**56,783,593,790.06**
Jan–Jun 2016						
Revenue of divisions						
External customer	**6,693,250,825.16**	**1,452,332,536.52**	**4,994,191,857.24**	**598,341,687.31**	**1,056,128,212.62**	**14,794,245,118.85**
Internal customer	**690,663,228.63**	**–**	**100,110,091.90**	**–**	**2,937,044.87**	**793,710,365.40**
Reportable revenue of divisions	**7,383,914,053.79**	**1,452,332,536.52**	**5,094,301,949.14**	**598,341,687.31**	**1,059,065,257.49**	**15,587,955,484.25**
Reportable revenue of gross profit	**1,065,491,255.46**	**224,125,636.51**	**281,775,602.69**	**94,365,806.46**	**121,039,757.07**	**1,786,798,058.19**

Items	Thermal power host devices	Water and electricity host devices	Plant engineering services	Power plant auxiliary and supporting products	Ac/dc motors and others	Total
2015.12.31						
Total assets of divisions	45,976,826,455.94	7,624,998,447.81	6,185,229,462.31	4,517,011,670.37	7,282,640,251.67	71,586,706,288.10
Total liabilities of divisions	34,253,484,815.40	4,564,784,463.07	5,518,401,880.38	3,529,407,618.66	6,063,128,299.85	53,929,207,077.36
Jan–Jun 2015						
Revenue of divisions						
External customer	5,933,972,831.61	1,322,456,436.25	2,758,918,969.94	838,241,726.63	1,097,450,148.43	11,951,040,112.86
Internal customer	1,032,470,628.59					1,032,470,628.59
Reportable revenue of divisions	6,966,443,460.20	1,322,456,436.25	2,758,918,969.94	838,241,726.63	1,097,450,148.43	12,983,510,741.45
Reportable revenue of gross profit	975,639,809.28	102,968,055.19	103,690,137.56	86,046,907.77	58,735,971.47	1,327,080,881.27

(2) [illegible]

Items	**2016.6.30**	2015.12.31
Assets		
Reportable assets of divisions	**68,412,655,297.94**	71,586,706,288.10
Offset division’s accounts from related parties	**–26,324,894,843.99**	–27,474,455,403.86
Reportable net assets of divisions	**42,087,760,453.95**	44,112,250,884.24
Deferred tax assets	**298,230,032.02**	333,842,705.26
Other non–current assets		
Financial assets which measured by fair value and the changes reckon in current period profit/loss		
Restricted and mortgaged bank loan		
Deposit in bank	**14,489,466,864.53**	16,572,749,985.51
Deposit in central bank	**841,423,747.46**	827,070,142.98
Cash and cash equivalents	**49,950,191.61**	837,186,029.23
Unallocated assets of head office and the company	**5,265,323,101.92**	1,480,145,750.92
Total assets	**63,032,154,391.49**	64,163,245,498.14
Liabilities		
Reportable .liabilities of divisions	**56,783,593,790.06**	53,929,207,077.36
Offset division’s accounts from related parties	**–26,324,894,843.99**	–27,474,455,403.86
Reportable net liabilities of divisions	**30,458,698,946.07**	26,454,751,673.50
Tax payable		
Unallocated liabilities of head office and the company	**18,519,464,411.18**	23,791,611,969.37
Total liabilities	**48,978,163,357.25**	50,246,363,642.87

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

4. MANAGEMENT EXPENSES

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

5. ASSETS IMPAIRMENT LOSS

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

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

6. PROFIT BEFORE TAX AND AMORTIZATION DEPRECIATION

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

7. DIVIDEND

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

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

11. ACCOUNTS RECEIVABLE

Customer access to the authorization of the credit period is different, generally depending on the financial strength of individual customers. In order to effectively manage the credit risks associated with accounts receivable, the Group periodically evaluates the customer's credit.

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

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

(1)

The currency mentioned in this report was Renminbi.

12. NOTES PAYABLE

Type	**2016.6.30**	2015.12.31
Commercial Acceptance Bill	**4,049,343,853.20**	4,562,398,513.21
Bank Acceptance Bill	**634,995,835.34**	491,039,222.34
Total		

OPERATING RESULTS

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

INTERIM DIVIDEND

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

INDUSTRY DEVELOPMENT AND BUSINESS REVIEW

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

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

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

PRODUCTION AND SERVICES

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

OPERATING REVENUE AND COST

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

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

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

GROSS PROFIT AND GROSS PROFIT MARGIN

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

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

EXPENSES FOR THE PERIOD

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

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

ASSETS AND LIABILITIES

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

The total liabilities of the Group amounted to RMB48,978.16 million, a decrease of RMB1,268.20 million or 2.52% over the beginning of the period, among which the current liabilities were RMB44,602.52 million, representing 91.07% of the total liabilities, and the non–current liabilities were RMB4,375.64 million, representing 8.93% of the total liabilities, including the five–year domestic corporate bonds with an issuing scale of RMB3.0 billion by the Company in March 2013. The balance of bonds payable for the current period was RMB2,997.08 million. As at 30 June 2018,9ne 0.073 1_0 1 Tf 0.025 T7.04025 Tc ng io ,

MONETARY CAPITAL AND CASH FLOWS

As at 30 June 2016, the monetary capital of the Group was RMB15,380.84 million, representing a decrease of RMB2,856.17 million as compared to the beginning of the period. During the period, the negative net cash flow generated from operating activities of the Group was RMB2,294.93 million, while investing activities generated net cash flow of RMB274.74 million and financing activities generated negative net cash flow of RMB657.01 million.

FUNDING AND BORROWINGS

The Group currently has four funding sources for operation and development, namely shareholder's funds, trade receivables from customers, bank borrowings and corporate bonds. The Group arranges borrowings for each specific project. Except for some special situations, loans will be raised individually by the Group's subsidiaries. However, prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 30 June 2016, the Group's total borrowings amounted to RMB2,765.14 million, all of which amounts were borrowed from various commercial banks and the state's policy banks with interest rates stipulated by the state. Among the borrowings, the amount due within one year was RMB2,765.14 million, a decrease of RMB413.26 million over the beginning of the period. There was no borrowing due after one year. The amounts received in advance were RMB21,093.20 million, a decrease of RMB374.09 million over the beginning of the period.

GEARING RATIO

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

TAX POLICIES

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

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

THE SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

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

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

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

Pledge of Assets

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

CORPORATE GOVERNANCE CODE

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

THE AUDIT COMMITTEE

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

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

SHAREHOLDERS' MEETING

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

DOCUMENTS AVAILABLE FOR INSPECTION

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

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

Harbin, PRC, 19 August 2016