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**哈尔滨电气股份有限公司**

**HARBIN ELECTRIC COMPANY LIMITED**

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 1133)

## **INTERIM RESULTS ANNOUNCEMENT 2018**

The Board of Directors (the “**Board**”) of Harbin Electric Company Limited (the “**Company**”) hereby announces the operating results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2018, which were prepared in accordance with the Chinese Enterprises Accounting Standard. Such operating results have not been audited but have been reviewed by BDO China Shu Lun Pan Certified Public Accountants LLP.

All amounts in this report are denominated in Renminbi.

## CONSOLIDATION BALANCE SHEET

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	June 30, 2018	Dec 31, 2017
<b>Current assets:</b>			
Cash and cash equivalents		<b>9,609,472,261.01</b>	16,165,238,281.47
Provision of settlement fund			
Funds lent		<b>200,000,000.00</b>	
Financial assets held for trading		<b>1,028,636,621.75</b>	
Financial derivative			
Notes receivable and accounts receivable	11	<b>14,518,972,764.04</b>	14,951,037,967.00
Advances to suppliers		<b>3,964,352,058.72</b>	5,389,851,256.88
Insurance premiums receivable			
Cession premiums receivable			
Provision of cession receivable			
Other receivables		<b>1,030,155,061.77</b>	956,987,640.88
Recoursable financial assets acquired			
Inventories		<b>10,962,769,279.71</b>	15,546,042,302.41
Including: Raw materials		<b>3,295,260,464.02</b>	3,480,285,176.50
Stock goods(finished goods)		<b>439,925,646.35</b>	426,733,313.77
Contractual assets		<b>3,676,585,761.88</b>	
Assets classified as held for sale			
Non-current assets due within one year		<b>49,300,000.00</b>	
Other current assets		<b>2,677,121,050.53</b>	3,009,630,060.28
<b>Total current assets</b>		<b><u>47,717,364,859.41</u></b>	<b><u>56,018,787,508.92</u></b>

## CONSOLIDATION BALANCE SHEET (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	June 30, 2018	Dec 31, 2017
<b>Non-current assets:</b>			
Loans and advances		10,776,306.00	492,068.11
Debt investments			
Other debt investments			
Long-term receivables		4,007,882.07	2,831,982.28
Long-term equity investment		214,117,000.54	202,785,739.51
Other equity instruments investment		107,095,000.00	85,895,000.00
Other non-current financial assets			
Investment property		233,426,761.59	230,786,722.78
Fixed Assets original costs		13,546,049,165.93	13,435,973,909.56
Less: Accumulated depreciation		7,695,494,734.38	7,426,533,734.02
Net value of fixed assets		5,850,554,431.55	6,009,440,175.54
Less: Impairment of fixed assets		48,442,947.49	48,520,955.05
Net book value of fixed assets		5,802,111,484.06	5,960,919,220.49
Construction in progress		875,887,341.18	863,769,342.73
Bearer biological assets			
Oil and gas assets			
Intangible assets		774,747,929.21	771,625,366.77
Development expenditures		279,733,601.33	239,205,849.67
Goodwill			
Long-term prepaid expenses		37,076,791.74	30,412,529.89
Deferred tax assets		435,428,166.55	430,581,741.83
Other non-current assets			
Including: special reserve materials			
<b>Total non-current assets</b>		<b>8,774,408,264.27</b>	<b>8,819,305,564.06</b>
<b>Total assets</b>		<b>56,491,773,123.68</b>	<b>64,838,093,072.98</b>

## CONSOLIDATION BALANCE SHEET (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	June 30, 2018	Dec 31, 2017
<b>Current liabilities:</b>			
Short-term borrowing		<b>1,382,623,534.19</b>	3,083,568,542.78
Borrowings from central bank			
Deposits from customers and interbank		<b>1,563,132,585.80</b>	803,027,749.69
Deposit funds		<b>300,000,000.00</b>	
Financial liabilities held for sale			
Derivative financial liabilities			
Bonds receivable and accounts receivable	12	<b>18,276,609,521.90</b>	19,531,513,198.03
Advance receipts			19,691,124,928.12
Contractual liabilities		<b>16,190,208,363.72</b>	
Financial assets sold for repurchase			
Handling charges and commissions payable			
Employee benefits payable		<b>287,387,435.90</b>	319,715,914.16
Including: Accrued payroll		<b>72,004,055.11</b>	91,949,227.59
Welfare benefits payable		<b>4,946,903.98</b>	
Including: Staff and workers' bonus and welfare			
Taxes and surcharges payable		<b>222,104,563.79</b>	240,442,949.52
Including: Taxes payable		<b>213,728,240.89</b>	227,313,951.19
Other payables		<b>221,809,493.22</b>	406,316,171.00
Cession insurance and premiums payable			
Provision for insurance contracts			
Funds received as agent of stock exchange			
Funds received as stock underwrite			
Liabilities classified as held for sale			
Non-current liabilities maturing within one year			2,999,707,500.00
Other current liabilities		<b>170,173.80</b>	134,893.80
<b>TOTAL CURRENT LIABILITIES</b>		<b><u>38,444,045,672.32</u></b>	<b><u>47,075,551,847.10</u></b>

## CONSOLIDATION BALANCE SHEET (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	June 30, 2018	Dec 31, 2017
<b>Non-current liabilities:</b>			
Long-term borrowings		500,000,000.00	200,000,000.00
Bonds payable			
Including: Preferred stocks			
Perpetual debts			
Long-term payables		485,953,994.29	485,953,994.29
Long-term employee compensation payable		141,039,180.93	141,039,180.93
Estimated liabilities		574,964,304.08	631,358,782.54
Deferred income		155,982,266.09	154,756,614.71
Deferred income tax liabilities			7,280,974.79
Other non-current liabilities			
Including: special reserve fund			
		<hr/>	<hr/>
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,857,939,745.39</b>	<b>1,620,389,547.26</b>
		<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>		<b>40,301,985,417.71</b>	<b>48,695,941,394.36</b>
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## CONSOLIDATION BALANCE SHEET (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	June 30, 2018	Dec 31, 2017
<b>Owners' (Shareholders') equity:</b>			
Paid-in capital (or share capital)		<b>1,706,523,000.00</b>	1,706,523,000.00
National capital		<b>1,030,952,000.00</b>	1,030,952,000.00
Including: State-owned legal person's capital		<b>1,030,952,000.00</b>	1,030,952,000.00
Collective capital			
Non-governmental capital			
Including: Individual capital			
Foreign capital		<b>675,571,000.00</b>	675,571,000.00
<sup>#</sup> Less: Capital redemption			
Net balance of paid-in capital		<b>1,706,523,000.00</b>	1,706,523,000.00
Other equity instruments			
Including: Preferred stock			
Perpetual debts			
Capital reserve		<b>3,704,487,494.12</b>	3,690,197,230.17
Less: Treasury stock			
Other comprehensive income		<b>-190,451.03</b>	18,514,209.22
Including: Converted difference in foreign currency statements		<b>148,504.77</b>	-691,329.32
Special reserve		<b>26,115,497.27</b>	19,377,426.96
Surplus reserve		<b>786,529,945.86</b>	786,529,945.86
Including: Statutory reserves		<b>786,529,945.86</b>	786,529,945.86
Discretionary accumulation			
Reserve funds			
Enterprise expansion funds			
Profits capitalized on return of investments			
Provision for normal risks			
Undistributed profits		<b>8,680,839,288.58</b>	8,649,609,089.09
Total equity attributable to owners of the parent company		<b>14,904,304,774.80</b>	14,870,750,901.30
Minority equity		<b>1,285,482,931.17</b>	1,271,400,777.32
<b>TOTAL OWNERS' (SHAREHOLDERS') EQUITY</b>		<b>16,189,787,705.97</b>	16,142,151,678.62
<b>TOTAL LIABILITIES AND OWNERS' (SHAREHOLDERS') EQUITY</b>		<b>56,491,773,123.68</b>	64,838,093,072.98

Legal representative :

Chief Accounting Officer :

Accounting agency head:

## CONSOLIDATED INCOME STATEMENT

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2018	January to June 2017
<b>I. Total operating income</b>		<b>12,978,747,387.39</b>	16,976,905,559.55
Including: Operating income	3	<b>12,731,936,330.66</b>	16,778,045,409.53
Interest income		<b>246,772,517.95</b>	198,855,999.08
Earned premiums			
Income from handling charges and commissions		<b>38,538.78</b>	4,150.94
<b>II. Total operating cost</b>		<b>12,842,227,104.72</b>	16,706,670,462.24
Including: Operating cost	3	<b>11,216,343,737.26</b>	14,668,840,254.36
Interest expenses		<b>6,230,313.71</b>	12,918,952.95
Handling charges and commissions expenses		<b>10,337.62</b>	8,393.88
Refund of insurance premiums			
Net payments for insurance claims			
Net amount withdrawn for insurance contract reserves			
Commissions on insurance policies			
Cession charges			
Taxes and surcharges		<b>101,237,278.86</b>	76,606,057.62
Selling expenses		<b>237,364,912.58</b>	246,380,167.72
General and administrative expenses	4	<b>757,860,374.13</b>	823,781,461.39
Including: Party construction work funds		<b>20,746.83</b>	
Research and development expenses		<b>137,705,140.13</b>	111,637,505.77
Financial expenses		<b>65,222,739.57</b>	168,742,077.55
Including: Interest expense		<b>86,412,707.43</b>	116,904,853.63
Interest income		<b>29,402,604.12</b>	21,616,412.94
Gain or loss on foreign exchange transactions ("-" for gains)		<b>3,959,921.87</b>	58,995,702.41
Impairment loss on assets	5		597,755,591.00
Impairment loss on credits	6	<b>320,252,270.86</b>	
Others			
Plus: Other income		<b>4,061,461.07</b>	3,369,003.80
Investment income ("-" for losses)		<b>42,539,960.96</b>	38,315,566.76
Including: Income from investment in associates and joint ventures		<b>429,708.77</b>	20,089,218.32
Net exposure hedging returns ("-" for losses)			
Gains from the changes in fair value ("-" for losses)			-2,484,906.61
Asset disposal income ("-" for losses)		<b>317,323.85</b>	1,350,739.32
Gains from foreign exchange ("-" for losses)		<b>-1,003.45</b>	203.78

## CONSOLIDATED INCOME STATEMENT (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2018	January to June 2017
<b>III. Operating profits (“-” for losses)</b>		<b>183,438,025.10</b>	310,785,704.36
Plus: Non-operating income		<b>22,413,873.87</b>	10,104,971.36
Including: Gains from disposal of non-current assets		<b>2,088,940.04</b>	1,420,949.40
Gains from exchange of non-monetary assets			
Government grant income		<b>4,534,605.91</b>	6,664,120.88
Gains from debt restructuring			
Less: Non-operating expenses		<b>61,084,827.05</b>	96,826,582.11
Including: Losses from disposal of non-current assets		<b>1,336,090.76</b>	613,601.40
Losses from exchange of non-monetary assets			
Losses from debt restructuring			
<b>IV. Total profits (“-” for total losses)</b>		<b>144,767,071.92</b>	224,064,093.61
Less: Income tax expenses	10	<b>78,533,914.49</b>	75,966,190.39
<b>V. Net profit (“-” for net losses)</b>		<b>66,233,157.43</b>	148,097,903.22
(1) Classification according to the continuity of operation			
1. Net profit for continuing operations (“-” for losses)		<b>66,233,157.43</b>	148,097,903.22
2. Termination of operating net profit (“-” for losses)			
(2) Classification by ownership			
1. Net profit attributable to shareholders of the parent company		<b>30,768,718.70</b>	124,593,624.45
2. Minority shareholder gains and losses		<b>35,464,438.73</b>	23,504,278.77



## CONSOLIDATED INCOME STATEMENT (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2018	January to June 2017
<b>VI. Other comprehensive income, net of tax</b>		<b>839,834.09</b>	453,607.53
Net after-tax of other comprehensive income attributable to the parent company owner		<b>839,834.09</b>	453,607.53
(1) Other comprehensive income that cannot be reclassified into profit or loss			
1. Re-measure the change in the defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instruments investment			
4. Changes in the fair value of the company's own credit risk			
(2) Other comprehensive income that will be reclassified into profit or loss		<b>839,834.09</b>	453,607.53
1. Other comprehensive income of convertible profits and losses under the equity method			
2. Gains and losses from changes in fair value of available-for-sale financial assets			
3. Held-to-maturity investments are reclassified as gains and losses on available-for-sale financial assets			
4. Changes in fair value of other debt investments			
5. The amount of financial assets reclassified into other comprehensive income			
6. Other debt investment credit impairment provisions			
7. Cash flow hedge reserve			2,112,170.62
8. Foreign currency financial statement translation difference		<b>839,834.09</b>	-1,658,563.09
9. Others			
Net after-tax of other comprehensive income attributable to minority shareholders			
<b>VII. Total comprehensive income</b>		<b>67,072,991.52</b>	148,551,510.75
Total comprehensive income attributable to owners of the parent company		<b>31,608,552.79</b>	125,047,231.98
Total comprehensive income attributable to minority shareholders		<b>35,464,438.73</b>	23,504,278.77
<b>VIII. Earnings per share :</b>			
Basic earnings per share (yuan per share)	9	<b>0.02</b>	0.09
Diluted earnings per share (yuan per share)	9	<b>0.02</b>	0.09

Legal representative :

Chief Accounting Officer :

Accounting agency head:

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2018	January to June 2017
<b>I. CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from sales of goods and rendering of services		<b>9,886,201,809.98</b>	15,343,445,033.41
Net increase in deposits from customers and due from banks and other financial institutions		<b>760,140,116.11</b>	-932,598,175.50
Net increase in borrowings from the central bank			
Net increase in loans from other financial institutions		<b>100,000,000.00</b>	
Cash received from receiving insurance premium of original insurance contract			
Net cash received from reinsurance business			
Net increase in deposits and investments from policyholders			
Net increase received from disposal of financial assets measured at fair value through current profit and loss			
Cash received from interests, handling charges and commissions		<b>246,110,704.83</b>	215,734,524.85
Net increase in loans from banks and other financial institutions			
Net capital increase in repurchase business			
Refunds of taxes and surcharges		<b>59,445,903.94</b>	309,261,201.06
Cash received from other operating activities		<b>279,014,827.25</b>	329,251,903.71
<b>Sub-total of cash inflows from operating activities</b>		<b>11,330,913,362.11</b>	15,265,094,487.53
Cash paid for goods purchased and services received		<b>9,840,832,278.46</b>	14,335,482,416.02
Net increase in customers' loans and advances		<b>10,284,237.89</b>	-22,815,238.05
Net increase in deposits with central bank and with banks and other financial institutions		<b>-199,541,263.36</b>	-39,750,759.98
Cash paid for original insurance contract claims			
Cash paid for interests, handling charges and commissions		<b>55,502,317.56</b>	9,728,221.40
Cash paid for policy dividends			
Cash payments to and on behalf of employees		<b>1,266,060,927.14</b>	1,302,052,977.60
Cash paid for taxes and surcharges		<b>835,815,084.80</b>	744,667,213.36
Cash paid for other operating activities		<b>847,648,531.15</b>	791,272,613.26
<b>Sub-total of cash outflows from operating activities</b>		<b>12,656,602,113.64</b>	17,120,637,443.61
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>-1,325,688,751.53</b>	-1,855,542,956.08

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2018	January to June 2017
<b>II. CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash received from disposal of investments		<b>1,017,000,000.00</b>	910,000,000.00
Cash received from returns on investments		<b>34,579,376.70</b>	21,728,536.46
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>2,840,930.08</b>	2,311,731.06
Net cash received from disposal of subsidiaries and other business units			
Cash received from other investing activities			
Subtotal of cash inflows from investment activities		<b>1,054,420,306.78</b>	934,040,267.52
Net cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets		<b>195,609,400.55</b>	579,820,899.94
Cash paid for investments		<b>1,148,000,000.00</b>	2,100,000,000.00
Net increase in pledge loans			
Net cash paid to acquire subsidiaries and other business units			
Cash paid for other investing activities		<b>32,621,665.76</b>	
Sub-total of cash outflows from investing activities		<b>1,376,231,066.31</b>	2,679,820,899.94
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>-321,810,759.53</b>	<b>-1,745,780,632.42</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2018	January to June 2017
<b>III. CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash received from absorption of investment Including: Cash received by subsidiaries from investments by minority shareholders			
Cash received from borrowings		769,550,061.55	863,900,000.00
Cash received from bonds issue			
Cash received from other financing activities		3,336.38	36,453.39
<b>Sub-total of cash inflows from financing activities</b>		<b>769,553,397.93</b>	<b>863,936,453.39</b>
Cash paid for debts repayments		4,972,711,610.28	15,229,866.10
Cash paid for distribution of dividends and profits or payment of interests		269,162,279.19	177,329,265.88
Including: Dividends and profits paid to minority shareholders by subsidiaries			
Cash paid for other financing activities		158,443,661.88	2,136.92
<b>Sub-total of cash outflows from financing activities</b>		<b>5,400,317,551.35</b>	<b>192,561,268.90</b>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>-4,630,764,153.42</b>	<b>671,375,184.49</b>
<b>IV. EFFECT OF FLUCTUATION IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>			
		-12,895,939.19	-48,368,137.26
<b>V. NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Plus: Beginning balance of cash and cash equivalents		15,206,290,892.00	17,204,139,648.41
<b>VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS</b>			
		8,915,131,288.33	14,225,823,107.14
Legal representative :	Chief Accounting Officer :	Accounting agency head:	

# CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	January to June 2018												
	Equity attributable to owners of the parent company												
	Paid-in capital (or share capital)	Other equity instrument		Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Others	Subtotal	Minority equity	Total owners' equity
<b>I. Balance at the end of the last year</b>	1,706,523,000.00				18,514,209.22	19,377,425.96	786,529,945.86		8,649,609,089.09		14,870,750,901.30	1,271,400,777.32	16,142,151,678.62
Plus: Adjustments for changes in accounting policies													
Correction of accounting errors in prior periods													
Business combination under the same control													
Others													
<b>II. Balance at the beginning of the year</b>	1,706,523,000.00				18,514,209.22	19,377,425.96	786,529,945.86		8,649,609,089.09		14,870,750,901.30	1,271,400,777.32	16,142,151,678.62
<b>III. Increases/decreases in the current period ("+" for increases)</b>													
(1) Total comprehensive income				-18,704,660.25	6,738,070.31				31,230,190.49		33,553,873.50	14,082,153.85	47,636,027.35
(2) Capital contributed or reduced by owners				833,834.09					30,768,718.70		31,608,552.79	33,464,438.73	67,072,991.52
1. Common shares contributed by owners													
2. Capital contributed by the holders of other equity instruments													
3. Amounts of share-based payments recognized in owners' equity													
4. Others													
(3) Special reserves													
1. Extraction of special reserves						6,738,070.31							14,290,263.95
2. Use of special reserves						10,676,571.17							6,738,070.31
(4) Profit distribution						-3,938,500.86							7,286,461.44
1. Withdrawal of surplus reserves													12,054,613.12
Including: Statutory reserves													-829,650.82
Discretionary fund													-27,555,676.01
Reserve fund													-46,638,689.56
Expansion fund of enterprise													

# CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	January to June 2018										Total owners' equity				
	Equity attributable to owners of the parent company														
	Other equity instrument														
	Paid-in capital (or share capital)	Preferred stocks	Perpetual capital securities	Others	Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Others	Subtotal	Minority equity	
Profits capitalized on return of investment															
2. Withdrawal of general risk reserves											-25,597,845.00		-25,597,845.00	-28,200,000.00	-53,797,845.00
3. Profits distributed to owners (or shareholders)											6,514,831.45		6,514,831.45	644,323.99	71,591,555.44
4. Others															
(5) Internal carry-forward of owners' equity							-19,544,494.34				19,544,494.34				
1. Conversion of capital reserves into paid-in capital (or share capital)															
2. Conversion of surplus reserves into paid-in capital (or share capital)															
3. Surplus reserves offsetting losses															
4. Transfer remeasurement changes in net liabilities or net assets of defined benefit plans											19,544,494.34		19,544,494.34		
5. Other comprehensive income carry-over retained earnings															
6. Others															
(6) Others															
<b>IV. Balance at the end of the current period</b>	1,706,523,000.00				3,704,487,494.12		-190,451.03	26,115,497.27	786,529,945.86	8,680,839,288.58	14,904,304,774.80	1,285,482,931.17	16,189,787,705.97		

Legal representative :

Chief Accounting Officer :

Accounting agency head:



# CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	January to June 2017										Total owners' equity				
	Equity attributable to owners of the parent company														
	Other equity instrument														
	Paid-in capital (or share capital)	Preferred stocks	Perpetual capital securities	Others	Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Others	Subtotal	Minority equity	
Profits capitalized on return of investment															
2. Withdrawal of general risk reserves															
3. Profits distributed to owners (or shareholdes)															
4. Others															
(5) Internal carry-forward of owners' equity															
1. Conversion of capital reserves into paid-in capital (or share capital)															
2. Conversion of surplus reserves into paid-in capital (or share capital)															
3. Surplus reserves offsetting losses															
4. Transfer remeasurement changes in net liabilities or net assets of defined benefit plans															
5. Other comprehensive income carry-over retained earnings															
6. Others															
(6) Others															
<b>IV. Balance at the end of the current period</b>	1,376,806,000.00				2,764,208,480.41		-6,485,187.17	20,436,600.42	786,529,945.86		8,579,975,975.54		13,521,471,813.06	1,220,736,526.99	14,752,208,340.05

Legal representative :

Chief Accounting Officer :

Accounting agency head:



## **1. INFORMATION ABOUT THE COMPANY**

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.

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.

## **2. MAIN ACCOUNTING POLICIES**

Unless the financial instruments are measured at fair value, the consolidated financial statements are measured by historical cost method.

The accounting policies and calculation methods adopted in the consolidated financial statements as at 30 June 2018 are in line with the compilation of the annual financial statements of the Group for the year ended 31 December 2017.

## **3. INCOMES AND DIVISION’S DOCUMENTS**

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

The company confirmed six 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, nuclear power products division, ac/dc motor and other six divisions. The individual report of the company offers 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) Assets, liabilities and revenue of divisions

Items	Thermal power host devices	Water and electricity host devices	Plant engineering services	Power plant auxiliary and supporting products	Nuclear power products division	Ac/dc motors and others	Total
<b>30 June 2018</b>							
Reportable assets of divisions	40,483,693,204.38	5,149,103,719.14	5,089,545,391.45	1,296,620,881.53	6,479,862,663.44	5,847,905,479.86	64,346,731,339.80
Reportable liabilities of divisions	32,350,696,595.03	2,984,650,213.72	4,614,239,720.00	941,000,117.50	4,765,278,967.89	4,733,712,153.06	50,389,577,767.20
<b>January to June 2018</b>							
Revenue of divisions							
External customer	6,246,772,675.10	771,881,980.30	3,812,798,546.75	265,191,255.73	574,953,516.03	1,060,338,356.75	12,731,936,330.66
Internal customer	1,297,613,442.97					25,451,274.79	1,323,064,717.76
Reportable revenue of divisions	7,544,386,118.07	771,881,980.30	3,812,798,546.75	265,191,255.73	574,953,516.03	1,085,789,631.54	14,055,001,048.42
Reportable revenue of gross profit	975,575,428.03	79,900,909.81	18,213,361.36	49,683,585.68	102,838,375.32	329,171,139.67	1,555,382,799.87
<b>31 December 2017</b>							
Reportable assets of divisions	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
Reportable liabilities of divisions	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
<b>January to June 2017</b>							
Revenue of divisions							
External customer	6,873,286,545.93	608,525,656.18	6,725,575,156.17	751,690,250.97	794,447,194.83	1,024,520,605.45	16,778,045,409.53
Internal customer	1,203,096,164.61		-141,400,613.00			9,460,770.84	1,071,156,322.45
Reportable revenue of divisions	8,076,382,710.54	608,525,656.18	6,584,174,543.17	751,690,250.97	794,447,194.83	1,033,981,376.29	17,849,201,731.98
Reportable revenue of gross profit	1,337,062,213.85	104,190,663.00	236,059,946.36	32,619,781.77	181,555,253.96	210,515,977.78	2,102,003,836.72

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

<b>Items</b>	<b>30 June 2018</b>	<b>31 December 2017</b>
<b>Assets</b>		
Reportable assets of divisions	<b>64,346,731,339.80</b>	70,201,843,933.22
Offset division's accounts from related parties	<b>-17,846,990,204.51</b>	-20,122,713,238.83
Reportable net assets of divisions	<b>46,499,741,135.29</b>	50,079,130,694.39
Deferred tax assets	<b>435,428,166.55</b>	430,581,741.83
Financial assets held for trading	<b>1,028,636,621.75</b>	
Deposit in bank	<b>6,324,144,449.45</b>	12,155,831,808.52
Deposit in central bank	<b>597,020,056.42</b>	747,561,319.78
Cash and cash equivalents	<b>6,633,098.27</b>	107,033,625.67
Unallocated assets of head office and the company	<b>1,600,169,595.95</b>	1,317,953,882.79
<b>Total assets</b>	<b><u>56,491,773,123.68</u></b>	<b><u>64,838,093,072.98</u></b>
<b>Liabilities</b>		
Reportable liabilities of divisions	<b>50,389,577,767.20</b>	56,363,147,678.61
Offset division's accounts from related parties	<b>-12,200,986,991.52</b>	-8,721,527,596.46
Reportable net liabilities of divisions	<b>38,188,590,775.68</b>	47,641,620,082.15
Tax payable	<b>222,104,563.79</b>	240,442,949.52
Deferred income tax liabilities		7,280,974.79
Unallocated liabilities of head office and the company	<b>1,891,290,078.24</b>	806,597,387.90
<b>Total liabilities</b>	<b><u>40,301,985,417.71</u></b>	<b><u>48,695,941,394.36</u></b>

<b>Items</b>	<b>January to June in 2018</b>	January to June in 2017
<b>Revenue</b>		
External revenue	<b>12,731,936,330.66</b>	16,778,045,409.53
Internal revenue	<b>1,323,064,717.76</b>	1,071,156,322.45
Total revenue	<b>14,055,001,048.42</b>	17,849,201,731.98
Reportable gross profit	<b>1,555,382,799.87</b>	2,102,003,836.72
Offset losses between divisions	<b>39,790,206.47</b>	-7,201,318.45
External customers' reportable gross profit	<b>1,515,592,593.40</b>	2,109,205,155.17
Long-term equity investment account by equity method	<b>429,708.77</b>	20,089,218.32
Interests income	<b>276,175,122.07</b>	220,472,412.02
Chinese government grants	<b>8,596,066.98</b>	6,664,120.88
Financial assets which measured by fair value and the changes reckon in current period profit/loss		-2,484,906.61
Interest expenses	<b>92,643,021.14</b>	129,823,806.58
Impairment losses for long-term assets such as fixed assets and intangible assets	<b>282,731.43</b>	
Undistributed other revenue and net revenue	<b>30,941,775.20</b>	17,707,274.80
Undistributed expenses of head office and the company	<b>1,594,042,441.94</b>	2,017,765,374.39
Total profit	<b>144,767,071.92</b>	224,064,093.61

**(3) Regional information**

<b>Items</b>	<b>Revenue from external customers</b>	
	<b>January to June in 2018</b>	January to June in 2017
1. Domestic (China)	<b>8,926,611,980.71</b>	10,127,786,402.60
2. Overseas :		
– Pakistan Islamic Community	<b>629,817,786.83</b>	2,325,566,845.29
– Republic of Turkey	<b>273,777,633.69</b>	1,022,960,524.95
– The United Arab Emirates	<b>2,372,658,716.02</b>	1,100,519,963.49
– Republic of Ecuador	<b>278,157,171.20</b>	855,001,465.26
– Bangladesh People's Republic	<b>77,787,500.17</b>	468,950,101.73
– Republic of Indonesia	<b>85,710,911.82</b>	113,678,226.86
– Other countries	<b>87,414,630.22</b>	763,581,879.35
Overseas subtotals	<b>3,805,324,349.95</b>	6,650,259,006.93
Total	<b>12,731,936,330.66</b>	16,778,045,409.53

#### 4. ADMINISTRATIVE EXPENSES

From 1 January, 2018 to 30 June, 2018, the management expenses are RMB757,860,374.13 (as of period in 2017 was RMB823,781,461.39) which consists of labor costs and amortization depreciation, etc.

#### 5. IMPAIRMENT ON ASSETS

<b>Items</b>	<b>January to June in 2018</b>	January to June in 2017
Bad debt loss		475,215,588.84
Loss on inventory valuation		122,449,138.90
Impairment loss of intangible assets		90,863.26
Total		<u>597,755,591.00</u>

#### 6. IMPAIRMENT ON CREDITS

<b>Items</b>	<b>January to June in 2018</b>	January to June in 2017
Bad debt loss	<b>321,724,211.70</b>	
Loss on inventory valuation	<b>-1,736,378.11</b>	
Impairment loss of intangible assets	<b>264,437.27</b>	
Total	<u><b>320,252,270.86</b></u>	

Explanation: Provision for impairment of accounts receivables and other receivables was RMB321,724,211.70 in this period, the provision for impairment will be used to write off accounts receivable and other receivables, only when this amount is less likely to be withdrawn.

#### 7. PROFIT BEFORE TAX AND AMORTIZATION DEPRECIATION

<b>Items</b>	<b>January to June in 2018</b>
Net profit	<b>66,233,157.43</b>
Income tax expenses	<b>78,533,914.49</b>
Withdrawing depreciation of fixed assets	<b>340,667,834.41</b>
Withdrawing amortization intangible assets	<b>30,784,197.09</b>
Withdrawing long-term unamortized expenses	<b>6,185,244.05</b>
Interests and investment income	<b>71,942,565.08</b>
Interests income of finance company	<b>246,772,517.95</b>
Interests expenses	<b>86,412,707.43</b>
Interests expenses of finance company	<b>6,230,313.71</b>
Profit before tax and amortization depreciation	<u><b>296,332,285.58</b></u>

## 8. DIVIDEND

Items	January to June in 2018	January to June in 2017
Dividend of per share RMB0.015 at the 2017 closing balance	<b>25,597,845.00</b>	
Dividend of per share RMB0.03 at the 2016 closing balance		41,304,180.00
Total	<b><u>25,597,845.00</u></b>	<b><u>41,304,180.00</u></b>

Director does not suggest pay any interim dividend from January to June 2018(as of period of 2017: RMB0)

## 9. EARNINGS PER SHARE:

	January to June in 2018	January to June in 2017
Shareholders' net profit attributable to parent company	<b>30,768,718.70</b>	124,593,624.45
During the period of the weighted average number of shares of common shares outstanding	<b>1,706,523,000.00</b>	1,376,806,000.00
Earnings per share	<b><u>0.02</u></b>	<b><u>0.09</u></b>

Explanation: from 1 January to 30 June 2018 and 2017, the company has not potential impactation of issued ordinary share, diluted earnings per share is the same as basic earnings per share.

## 10. INCOME TAX

### 1) Enterprise income tax

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%.

On 28 August 2017, the company obtained the "High-tech Enterprise Certificate" jointly issued by Heilongjiang Provincial Science and Technology Department, Heilongjiang Provincial Finance Department, Heilongjiang Provincial State Taxation Bureau and Heilongjiang Provincial Local Taxation Bureau. (Certificate No.: GR201723000191), valid for three years, and levy corporate income tax at the rate of 15% during the validity period. (Certificate No.: GR201723000191), valid for three years, and levy corporate income tax at the rate of 15% during the validity period.

In addition to several subsidiaries are charged the corporate income tax rate of 15% (for the six months ended 30 June, 2017), other subsidiaries in China shall be 25% (for the six months ended 30 June, 2017) to pay Chinese corporate income tax.

## 2) Hong Kong profits tax

The Group did not earn any income tax on Hong Kong profits tax from January to June 2018, and there was no provision for Hong Kong profits tax.

- 3) In accordance with the Circular of the State Administration of Taxation on the issue of the payment of corporate income tax on dividends paid by the Chinese resident enterprises to the shareholders of non-resident enterprises of overseas H shares on 6 November 2008 [2008] No. 897 issued by the State Administration of Taxation. The Chinese resident enterprises shall pay the enterprise income tax at the rate of 10% of the annual dividend of the H-share non-resident enterprise shareholders. Accordingly, the Company shall pay the enterprise income tax at the rate of 10% of the annual dividend of H shares non-resident enterprise shareholders.

Taxes incurred in other countries or regions are based on the prevailing tax rate of the country or region concerned.

## 11. NOTE RECEIVABLE AND ACCOUNTS RECEIVABLE

Item	30 June 2018	31 December 2017
Notes receivable	<b>2,989,774,372.92</b>	4,362,451,678.86
Accounts receivable	<b>11,529,198,391.12</b>	10,588,586,288.14
Total	<b><u>14,518,972,764.04</u></b>	<b><u>14,951,037,967.00</u></b>

### (1) Note receivable

#### 1) *Classified by types of notes receivable*

Items	30 June 2018	31 December 2017
Bank promissory notes	<b>2,468,095,119.64</b>	3,456,249,576.99
Commercial promissory notes	<b>521,679,253.28</b>	906,202,101.87
Total	<b><u>2,989,774,372.92</u></b>	<b><u>4,362,451,678.86</u></b>

Explanation: as of 30 June 2018, the ending balance of notes receivable were within a year.

## (2) Accounts receivable

The credit period for which the customer is authorized is different, generally depending on the financial strength of individual customers. For the effective management of the credit risk associated with accounts receivable, the Group conducts an assessment of customer credit on a regular basis.

### 1) Disclosure by types of accounts receivable

Type	30 June 2018					31 December 2017				
	Remaining carrying amount		Provision for bad debt			Remaining carrying amount		Provision for bad debt		
	Amount	Ratio (%)	Amount	Ratio (%)	Carrying Value	Amount	Ratio (%)	Amount	Ratio (%)	Carrying Value
Accounts receivable which are individually significant and provided for bad debt separately	525,674,869.65	3.01	428,268,100.48	81.47	97,406,769.17	583,116,164.56	3.59	453,326,138.19	77.74	129,790,026.37
Accounts receivable provided for bad debt by credit risk characteristics	16,778,412,925.96	95.90	5,376,909,272.04	32.05	11,401,503,653.92	15,432,497,914.00	95.13	5,052,399,099.88	32.74	10,380,098,814.12
Accounts receivable which are individually not significant but provided for bad debt separately	190,945,634.28	1.09	160,657,666.25	84.14	30,287,968.03	206,917,017.25	1.28	128,219,569.60	61.97	78,697,447.65
<b>Total</b>	<b>17,495,033,429.89</b>	<b>/</b>	<b>5,965,835,038.77</b>	<b>/</b>	<b>11,529,198,391.12</b>	<b>16,222,531,095.81</b>	<b>/</b>	<b>5,633,944,807.67</b>	<b>/</b>	<b>10,588,586,288.14</b>

Accounts receivable which are individually significant and provided for bad debt separately at the end of the period

Accounts receivable (By Unit)	30 June 2018			Reasons for provision
	Accounts receivable	Provision for bad debt	Provided ratio (%)	
Ministry of Irrigation & Water Resources of Republic of Sudan etc.	525,674,869.65	428,268,100.48	81.47	/
<b>Total</b>	<b>525,674,869.65</b>	<b>428,268,100.48</b>	<b>81.47</b>	<b>/</b>

Accounts receivable which are individually not significant but provided for bad debt separately:

Accounts receivable (By units)	30 June 2018			Reasons for provision
	Accounts receivable	Provision for bad debt	Provided Ratio (%)	
National Electricity Corporation of Sudan etc.	190,945,634.28	160,657,666.25	84.14	/
<b>Total</b>	<b>190,945,634.28</b>	<b>160,657,666.25</b>	<b>84.14</b>	<b>/</b>



In a portfolio, accounts receivable are provided for a bad debt based on aging analysis:

Age	30 June 2018			31 December 2017		
	Accounts receivable	Provision for bad debt	Provided ratio (%)	Accounts receivable	Provision for bad debt	Provided ratio (%)
Within 1 year	7,323,716,478.72	297,840,775.13	4.07	6,139,474,339.38	288,959,284.32	4.71
1-2years	2,647,024,798.60	539,784,935.47	20.39	2,940,828,553.75	705,792,023.29	24.00
2-3years	1,782,481,217.29	628,854,333.95	35.28	1,733,917,383.92	666,894,996.53	38.46
3-4years	1,522,166,421.60	808,030,183.67	53.08	1,383,981,084.23	793,660,767.19	57.35
4-5years	1,005,888,668.55	693,390,177.73	68.93	893,527,546.73	477,947,173.30	53.49
Over 5 years	2,497,135,341.20	2,409,008,866.09	96.47	2,340,769,005.99	2,119,144,855.25	90.53
Total	<u>16,778,412,925.96</u>	<u>5,376,909,272.04</u>	/	<u>15,432,497,914.00</u>	<u>5,052,399,099.88</u>	/

## 12. NOTES PAYABLE AND ACCOUNTS PAYABLE

Type	30 June 2018	31 December 2017
Notes payable	<b>4,697,585,188.43</b>	5,479,804,293.43
Accounts payable	<b>13,579,024,333.47</b>	14,051,708,904.60
Total	<b><u>18,276,609,521.90</u></b>	<u>19,531,513,198.03</u>

### (1) Notes payable

Type	30 June 2018	31 December 2017
Bank promissory notes	<b>3,770,096,653.16</b>	4,570,861,423.55
Commercial promissory notes	<b>927,488,535.27</b>	908,942,869.88
Total	<b><u>4,697,585,188.43</u></b>	<u>5,479,804,293.43</u>

Explanation: as of 30 June 2018, the ending balance of notes payable was within a year.

### (2) Accounts payable

#### 1) List of accounts payable

Items	30 June 2018	31 December 2017
Within 1 year	<b>10,368,978,383.86</b>	11,359,184,726.32
1-2 years	<b>1,618,262,187.26</b>	1,328,277,162.52
2-3 years	<b>563,586,666.18</b>	586,962,812.92
Over 3 years	<b>1,028,197,096.17</b>	777,284,202.84
Total	<b><u>13,579,024,333.47</u></b>	<u>14,051,708,904.60</u>

The currencies discussed in this report are denominated in RMB.

## **INDUSTRY DEVELOPMENT AND BUSINESS REVIEW**

In the first half of 2018, with continued growth of national energy consumption, ongoing optimization of the structure of energy consumption, and deep progress of green and low-carbon development, the newly installed capacity of power generating units for domestic infrastructure reached 52,110 MW, representing an increase of 1,550 MW as compared with the same period last year. Among which, the combined newly installed capacity of nuclear power, wind power and solar energy power made up 66.1% of the total newly installed capacity, up 5.4 percentage points as compared with the same period last year. The newly installed capacity of hydropower generation equipment significantly decreased and the scale of that of thermal power remained basically stable. The effect of a series of national policy and measure in promoting the orderly development of coal power industry was gradually reflected.

In the first half of 2018, according to the goal set at the beginning of the year, the Group adhered to high-quality development as its core and made every effort to focus on key tasks such as innovation, operation, transformation, reform and weakness improvement, thereby speeding up various tasks in an active manner.

## **OPERATING RESULTS**

For the six months ended 30 June 2018, the Group recorded an operating revenue of RMB12,731.94 million, representing a decrease of 24.12% as compared with the same period last year. The Group recorded a net profit attributable to owners of the parent company of RMB30.77 million, representing a decrease of 75.30% as compared with the same period last year. Earnings per share were RMB0.02, representing a decrease of RMB0.07 as compared with the same period last year. The Group's total equity attributable to the owners of the parent company at the end of the period was RMB14,904.3 million, representing an increase of RMB33.55 million over the beginning of the year; and net assets per share were RMB8.73, representing an increase of RMB0.02 over the beginning of the period. The decrease in the profit of the Group during the period was mainly attributable to the decrease in the scale of the operating revenue for the current period.

## **NEW CONTRACTS**

For the six months ended 30 June 2018, the value of new contracts secured by the Group amounted to RMB8.650 billion, representing a decrease of approximately 27.81% from the same period last year, and to which the export contracts contributed RMB0.243 billion, representing a decrease of approximately 86.18% from the same period last year. Among the contracts in the first half of the year, the new contract amount for thermal power amounted to RMB3.615 billion, accounting for 41.79% of the new contracts; the new contract amount for hydropower amounted to RMB1.800 billion, accounting for 20.81%; the new contract amount for nuclear power amounted to RMB0.461 billion, accounting for 5.33%; the new contract amount for power engineering amounted to RMB0.031 billion, accounting for 0.35%; the new contract amount for power station service amounted to RMB1.053 billion, accounting for 12.17%; and the new contract amount for other products amounted to RMB1.691 billion, accounting for 19.55%.

## **PRODUCTION AND SERVICES**

The capacity of the Group's power equipment produced during the six months ended 30 June 2018 was 7,589 MW, representing a decrease of 18.3% as compared with the same period last year, and among which 6 water turbine generators generated a total of 1,039 MW, representing a decrease of 19.7% as compared with the same period last year; 17 steam turbine generators generated a total of 6,650 MW, representing a decrease of 18.0% as compared with the same period last year; 12 utility boilers for power stations generated a total of 6,440 MW, representing a decrease of 33.5% as compared with the same period last year; and 9 steam turbines for power stations generated a total of 3,152 MW, representing a decrease of 53.0% as compared with the same period last year. The decrease in production capacity of different kinds of products as compared with the same period last year was mainly attributable to a declining tendency in production volume caused by a decrease in market demand.

## **OPERATING REVENUE AND COST**

For the six months ended 30 June 2018, the Group recorded an operating revenue of RMB12,731.94 million, representing a decrease of 24.12% as compared with the same period last year. In particular, operating revenue of main thermal power equipment was RMB6,246.77 million, representing a decrease of 9.12% as compared with the same period last year. Operating revenue of nuclear power equipment was RMB574.95 million, representing a decrease of 27.63% as compared with the same period last year. Operating revenue of main hydropower equipment was RMB771.88 million, representing an increase of 26.84% as compared with the same period last year. Operating revenue of engineering services for power stations was RMB3,812.80 million, representing a decrease of 43.31% as compared with the same period last year. Operating revenue of ancillary equipment for power stations was RMB265.19 million, representing a decrease of 64.72% as compared with the same period last

year. Operating revenue of AC/DC motors and other products and services was RMB1,060.34 million, representing an increase of 3.50% as compared with the same period last year. During the period, the decrease in the operating revenue of the Group was mainly attributable to less revenue recognition from the newly contracted projects of power station engineering service segment in the early stage of construction and a decrease in the production volume of power generation equipment.

During the period, the Group recorded an export turnover of RMB3,805.32 million, accounting for 29.89% of the operating revenue. The exports were mainly to Asia, South America and other regions, and the exports to Asia accounted for 27.62% of the export turnover, whereas the exports to South America accounted for 2.18% of the export turnover.

During the period, the operating cost of the Group was RMB11,216.34 million, representing a decrease of 23.54% as compared with the same period last year, which was mainly attributable to the decrease in the scale of operating revenue.

## **GROSS PROFIT AND GROSS PROFIT MARGIN**

For the six months ended 30 June 2018, the Group realized a gross profit from operating business of RMB1,515.59 million, representing a decrease of 28.14% as compared with the same period last year. The gross profit margin was 11.90%, representing a decrease of 0.67 percentage point as compared with the same period last year.

In particular, the gross profit from main thermal power equipment was RMB948.66 million and the gross profit margin was 15.19%, representing a decrease of 4.31 percentage points as compared with the same period last year; the gross profit from nuclear power equipment was RMB102.84 million and the gross profit margin was 17.89%, representing a decrease of 4.97 percentage points as compared with the same period last year; the gross profit from main hydropower equipment was RMB79.90 million and the gross profit margin was 10.35%, representing a decrease of 6.77 percentage points as compared with the same period last year; the gross profit from engineering services for power stations was RMB18.21 million and the gross profit margin was 0.48%, representing a decrease of 3.12 percentage points as compared with the same period last year; the gross profit from ancillary equipment for power stations was RMB49.68 million and the gross profit margin was 18.74%, representing an increase of 14.40 percentage points as compared with the same period last year; and the gross profit from AC/DC motors and other products and services was RMB316.30 million and the gross profit margin was 29.83%, representing an increase of 9.48 percentage points as compared with the same period last year.

The Group's gross profit margin decreased slightly, due to (1) changes in the product sales structure of the thermal power segment, (2) the enhanced profitability of individual products in the nuclear power and hydropower segments in the same period last year, and (3) the decrease in the gross profit margin of power station engineering service segment, affected by intensified market competition, lower gross profit margin of newly contracted projects and the fluctuations in exchange rates.

## **EXPENSES FOR THE PERIOD**

For the six months ended 30 June 2018, the Group incurred expenses for the current period amounted to RMB1,198.15 million, representing a decrease of RMB152.39 million or 11.28% as compared with the same period last year. In particular, distribution expenses amounted to RMB237.36 million, representing a decrease of RMB9.02 million or 3.66% as compared with the same period last year; administrative expenses incurred amounted to RMB757.86 million, representing a decrease of RMB65.92 million or 8.00% as compared with the same period last year; R&D expenses incurred amounted to RMB137.71 million, representing an increase of RMB26.07 million or 23.35% as compared with the same period last year; financial costs incurred amounted to RMB65.22 million, representing a decrease of RMB103.52 million or 61.35% as compared with the same period last year.

The decrease in expenses for the period was mainly attributable to a decrease in net exchange loss and a decrease in interest expense for the current period.

## **ASSETS AND LIABILITIES**

As at 30 June 2018, the total assets of the Group amounted to RMB56,491.77 million, representing a decrease of RMB8,346.32 million or 12.87% over the beginning of the period, and among which the current assets were RMB47,717.36 million, accounting for 84.47% of the total assets, and the non-current assets were RMB8,774.41 million, accounting for 15.53% of the total assets. The decrease in the total assets was mainly due to the decrease in monetary capital and notes receivable.

The total liabilities of the Group amounted to RMB40,301.99 million, representing a decrease of RMB8,393.96 million or 17.24% over the beginning of the period, and among which the current liabilities were RMB38,444.05 million, accounting for 95.39% of the total liabilities, and the non-current liabilities were RMB1,857.94 million, accounting for 4.61% of the total liabilities. The decrease in the total liabilities was mainly due to (1) the repayment of corporate bonds of RMB3 billion; and (2) the reduction in short-term loans and advance receipts. As at 30 June 2018, the gearing ratio of the Group was 71.34% as compared to 75.10% at the beginning of the period.



## **CAPITAL AND GEARING RATIO**

As at 30 June 2018, the gearing ratio of the Group (calculated as non-current liabilities over total shareholders' equity) was 0.12:1 as compared to 0.11:1 at the beginning of the period.

## **MONETARY CAPITAL AND CASH FLOWS**

As at 30 June 2018, the monetary capital of the Group was RMB9,609.47 million, representing a decrease of RMB6,555.77 million or 40.55% as compared to the beginning of the period, primarily attributable to (1) the due to the repayment of corporate bonds of RMB3 billion; and (2) the reduction in advance receipts. During the period, the negative net cash flow generated from operating activities of the Group was RMB1,325.69 million, while investing activities generated negative net cash flow of RMB321.81 million and financing activities generated negative net cash flow of RMB4,630.76 million.

## **FUNDING AND BORROWINGS**

The Group currently has three funding sources for operation and development, namely shareholder's funds, trade receivables from customers and bank borrowings. 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 2018, the Group's total borrowings amounted to RMB1,882.62 million, all of which were made by various commercial banks and the state's policy banks at interest rates stipulated by the state. Among the borrowings, the amount due within one year was RMB1,382.62 million, representing a decrease of RMB1,700.95 million over the beginning of the period; the amount due after one year was RMB500 million, representing an increase of RMB500 million over the beginning of the period. Pursuant to the provisions of "Accounting Standard for Business Enterprises No.14 – Revenue" (Cai Kuai [2017] No. 22) issued by the Ministry of Finance, "an amount received by an enterprise before a promised commodity item is transferred", which is included in "advance receipts", is stated after reclassification into the item of "contracted liabilities". As of 30 June 2018, the Group's contracted liabilities were RMB16,190.21 million, representing a decrease of RMB3,500.92 million from the advance receipts at the beginning of the year. The corporate bond of RMB3 billion expired on 31 March 2018, and the Company has paid the principal and the last batch of interest.

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

For the six months ended 30 June 2018, the Group had made fixed assets investments of RMB199.49 million, which mainly were utilized for the technology upgrading project for core capacity of nuclear pump motor units of Harbin Turbine Company Limited and the manufacturing base improvement project for main nuclear pump motor units of Harbin Electric Power Equipment Company Limited. The first two were technological transformation projects designed for nuclear power products, which 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, part of the plants have been put into operation.

There is no significant change in the 2018 fixed assets investment plan of the Group as compared to those disclosed in the 2017 annual report.

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

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES**

The export business and the businesses settled in foreign currencies and all deposits denominated in foreign currencies of the Group are exposed to exchange risk. As at 30 June 2018, the Group's deposits denominated in foreign currencies were equivalent to approximately RMB964.03 million. As at 30 June 2018, the Group did not enter into any new forward exchange contract.

## **TAX POLICIES**

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

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

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

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

## **NEW PRODUCTS AND NEW INDUSTRIES**

In the first half of 2018, the Group continued to implement the national structural reform on the supply side, pushed forward the adjustment of industrial structure and the development of new industries such as wind power generation and photo-thermal power generation, 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.

## **EMPLOYEES, REMUNERATION, STOCK OPTION PLAN AND TRAINING**

As at 30 June 2018, the employees of the Group totaled at 16,471 and the total remuneration amounted to RMB683.28 million.

In the first half of 2018, there was no significant change in the Group's remuneration policy from those disclosed in the 2017 annual report. The Group has no long-term incentive scheme in place.

In the first half of 2018, the Group organized 694 classes in total for training and trained 26,229 persons, representing an increase of more than 4,200 persons over the same period last year.



## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018.

## **PROSPECTS**

In 2018, given the more complicated and ever-changing international situation, and the continuing optimization and upgrade of domestic economic structure, coupled with the ongoing adjustment of the national energy structure, the power generation equipment manufacturing market encounters both challenges and opportunities. In the second half of 2018, the Group will spare no effort in opening up the market to cope with declining demand in the coal-fired power market; reduce “Two Funds” to alleviate capital pressure; accelerate transformation to achieve new breakthroughs in industrial restructuring; deepen reforms to solve the problem regarding internal momentum; promote informationalization to overcome its weaknesses, and reward the shareholders with better results.

## **SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN SHARE CAPITAL**

As at 30 June 2018, the total number of share capital of the Company was 1,706,523,000 shares, of which included 1,030,952,000 state-owned legal person shares and 675,571,000 overseas H shares. The interests and short positions of shareholders holding 5% or more of the issued share capital of relevant class of share of the Company, which were required to be recorded under the register of interests and short positions kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the “SFO”), are set out as follows:

Long positions in the shares of the Company:

<b>Name of shareholders</b>	<b>Class of shares</b>	<b>Number of shares</b>	<b>Capacity</b>	<b>Percentage to underlying share capital</b>	<b>Percentage to total share capital</b>
Harbin Electric Corporation Co., Ltd.	State-owned legal person shares	1,030,952,000	Beneficial owner	100%	60.41%

Save as disclosed above, as at 30 June 2018, the Company did not receive any notification about the interests or short positions in shares or underlying shares of the Company, which are required to be entered in the register pursuant to Section 336 of the SFO.

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

As at 30 June 2018, none of the Directors, Supervisors and senior management of the Company and their associates had any interest and short position in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

## **COMPLIANCE WITH THE MODEL CODE**

As at 30 June 2018, the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by Directors. The Company, having made enquiry to the Directors, confirms that all Directors have complied with the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers throughout the period.

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

For the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **CONTINGENT LIABILITIES**

As at 30 June 2018, the guarantees provided by the Company to its subsidiaries and the guarantees between subsidiaries of the Company amounted to RMB2,164.74 million in aggregate. There was no external guarantee of the Group. In addition, as at the end of the current interim period, the Group had no major pending litigations.

## **PLEDGE OF ASSETS**

As at 30 June 2018, the Group pledged its assets of RMB119.49 million (as at 30 June 2017: RMB123.90 million) to secure loans for liquidity.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Company is currently and had been at all times during the accounting period in compliance with the rules set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules, and, where appropriate, has adopted the recommended best practices as specified therein. As of 31 December 2017, the Board 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. On 21 March 2018, the Board of the Company appointed Mr. Tian Min as an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee of the Board. The Board has an addition of independent non-executive Director with appropriate accounting expertise, and independent non-executive Directors were the majority among the members of the Nomination Committee under the Board.

## **THE AUDIT COMMITTEE**

The Audit Committee has reviewed and approved the interim report of the Company for the six months ended 30 June 2018. The members of Audit Committee of the Company include Tian Min, Zhu Hong-jie and Yu Wen-xing.

## **AUDITORS**

BDO China Shu Lun Pan Certified Public Accountants LLP, the Company's auditor, has carried out a review of the unaudited interim report for the six months ended 30 June 2018 in accordance with the requirements of "China Certified Public Accountant Review Standard No. 2101 – Review of Financial Statement".

## **SHAREHOLDERS' MEETING**

The 2017 annual general meeting of the Company was held in Harbin, the PRC on 25 May 2018, the results of which had been published on the websites of the Hong Kong Stock Exchange and the Company.

## **OTHER DISCLOSEABLE INFORMATION**

As at 30 June 2018, the Company did not have any information which was required to be disclosed pursuant to Rules 40.3(a) to (i) under Appendix 16 of the Listing Rules.

## **DOCUMENTS AVAILABLE FOR INSPECTION**

The Articles of Association of the Company and the original copies of the interim report and the reviewed financial statements for the six months ended 30 June 2018 are available for inspection at the head office of the Company at 1399 Chuangxinyi Road, Songbei District, Harbin, the PRC.

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

Harbin, PRC, 28 August 2018

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