INTERIM REPORT 2018

哈电集团
HARBIN ELECTRIC CORPORATION

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

Stock Code: 1133

Contents

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.

The changes in important accounting policies during the reporting period are set out in note III(VI) to the financial statements.

The currency mentioned in this report was Renminbi.

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 recorded a slight growth. 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.

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.

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%.

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 18.26% 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 19.71% as compared with the same period last year; 17 steam turbine generators generated a total of 6,650 MW, representing a decrease of 18.02% 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 33.51% 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 52.96% 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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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

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.

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:

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.

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).

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.

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.

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.

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.

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 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.

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".

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.

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.

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.

PCPAR [2018] NO. ZE10858

We have reviewed the accompanying financial statements of Harbin Electric Company Limited (Hereafter refer to as "HEC"), which comprise the consolidated balance sheet as of June 30, 2018, the consolidated income statement from January 1, 2018 to June 30, 2018, the consolidated cash flow statement, the consolidated statement of changes in owner's equity, and the notes to the financial statements. The preparation of these financial statements is the responsibility of managements of HEC. Our responsibility is to issue review report based on the implementation of review work.

We conducted our review in accordance with Chinese Certified Public Accountants reviewing Standards No. 2101. Those standards require that we plan and perform the review to obtain limited assurance whether the financial statements are free from material misstatements. The review is mainly limited to asking the relevant personnel of the company and implementing the analysis procedures for financial data, and the level of assurance provided is lower than the audit. We did not perform audit, and therefore do not express an audit opinion.

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

Shanghai, China

Date: 28 August 2018

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

[illegible]	*Notes*	[illegible]	December 31, 2017
[illegible]			
Cash and cash equivalents		[illegible]	16,165,238,281.47
△Provision of settlement fund			
△Funds lent		[illegible]	
Financial assets held for trading		[illegible]	
Financial derivative			
Notes receivable and accounts receivable	*V (I)*	[illegible]	14,951,037,967.00
Advances to suppliers	*V (II)*	[illegible]	5,389,851,256.88
△Insurance premiums receivable			
△Cession premiums receivable			
△Provision of cession receivable			
Other receivables	*V (III)*	[illegible]	956,987,640.88
△Recoursable financial assets acquired			
Inventories		[illegible]	15,546,042,302.41
including: raw materials		[illegible]	3,480,285,176.50
Stock goods (finished goods)		[illegible]	426,733,313.77
Contractual assets		[illegible]	
Assets classified as held for sale			
Non-current assets due within one year		[illegible]	
Other current assets	*V (IV)*	[illegible]	3,009,630,060.28
[illegible]		[illegible]	56,018,787,508.92

[illegible]	Notes	[illegible]	December 31, 2017
[illegible]			
△Loans and advances		[illegible]	492,068.11
Debt investments			
Other debt investments			
Long-term receivables		[illegible]	2,831,982.28
Long-term equity investment		[illegible]	202,785,739.51
Other equity instruments investment		[illegible]	85,895,000.00
Other non-current financial assets			
Investment property	V (V)	[illegible]	230,786,722.78
Fixed Assets original costs	V (V)	[illegible]	13,435,973,909.56
Less: Accumulated depreciation		[illegible]	7,426,533,734.02
Net value of fixed assets		[illegible]	6,009,440,175.54
Less: impairment of fixed assets		[illegible]	48,520,955.05
Net book value of fixed assets		[illegible]	5,960,919,220.49
Construction in progress		[illegible]	863,769,342.73
Bearer biological assets			
Oil and gas assets			
Intangible assets	V (V)	[illegible]	771,625,366.77
Development expenditures		[illegible]	239,205,849.67
Goodwill			
Long-term prepaid expenses		[illegible]	30,412,529.89
Deferred tax assets		[illegible]	430,581,741.83
Other non-current assets			
Including: special reserve materials			
[illegible]		[illegible]	8,819,305,564.06
[illegible]		[illegible]	64,838,093,072.98

[illegible]	Notes	[illegible]	December 31, 2017
[illegible]			
Short-term borrowing	V (VI)	[illegible]	3,083,568,542.78
△Borrowings from central bank			
△Deposits from customers and interbank		[illegible]	803,027,749.69
△Deposit funds		[illegible]	
Financial liabilities held for sale			
Derivative financial liabilities			
Bonds receivable and accounts receivable	V (VII)	[illegible]	19,531,513,198.03
Advance receipts			19,691,124,928.12
Contractual liabilities		[illegible]	
△Financial assets sold for repurchase			
△Handling charges and commissions payable			
Employee benefits payable		[illegible]	319,715,914.16
Including: Accrued payroll		[illegible]	91,949,227.59
Welfare benefits payable		[illegible]	
Including: Staff and workers' bonus and welfare			
Taxes and surcharges payable		[illegible]	240,442,949.52
Including: Taxes payable		[illegible]	227,313,951.19
Other payables		[illegible]	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	V (IX)		2,999,707,500.00
Other current liabilities	V (VIII)	[illegible]	134,893.80
[illegible]		[illegible]	47,075,551,847.10

[illegible]

[illegible]	Notes	[illegible]	December 31, 2017
[illegible]			
Long-term borrowings		[illegible]	200,000,000.00
Bonds payable			
including: preferred stocks			
perpetual debts			
Long-term payables		[illegible]	485,953,994.29
Long-term employee compensation payable		[illegible]	141,039,180.93
Estimated liabilities		[illegible]	631,358,782.54
Deferred income		[illegible]	154,756,614.71
Deferred income tax liabilities			7,280,974.79
Other non-current liabilities			
including: special reserve fund			
[illegible]		[illegible]	1,620,389,547.26
[illegible]		[illegible]	48,695,941,394.36

[illegible]

[illegible]	Notes	[illegible]	December 31, 2017
[illegible]			
Paid-in capital (or share capital)	*V (XI)*	[illegible]	1,706,523,000.00
National capital		[illegible]	1,030,952,000.00
Including: State-owned legal person's capital		[illegible]	1,030,952,000.00
Collective capital			
Non-governmental capital			
including: individual capital			
Foreign capital		[illegible]	675,571,000.00
Less: Capital redemption			
Net balance of paid-in capital		[illegible]	1,706,523,000.00
Other equity instruments			
Including: Preferred stock			
Perpetual debts			
Capital reserve		[illegible]	3,690,197,230.17
Less: Treasury stock			
Other comprehensive income		[illegible]	18,514,209.22
Including: Converted difference in foreign currency statements		[illegible]	-691,329.32
Special reserve		[illegible]	19,377,426.96
Surplus reserve		[illegible]	786,529,945.86
including: statutory reserves		[illegible]	786,529,945.86
discretionary accumulation			
reserve funds			
enterprise expansion funds			
profits capitalized on return of investments			
△Provision for normal risks			
Undistributed profits		[illegible]	8,649,609,089.09
[illegible]		[illegible]	14,870,750,901.30
Minority equity		[illegible]	1,271,400,777.32
[illegible]		[illegible]	16,142,151,678.62
[illegible]		[illegible]	64,838,093,072.98

Legal representative: Chief Accounting Officer: Accounting agency head:

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

[illegible]	*Notes*	[illegible]	January to June 2017
I. [illegible]		[illegible]	16,976,905,559.55
Including: Operating income	*V (XVII)*	[illegible]	16,778,045,409.53
△Interest income		[illegible]	198,855,999.08
△Earned premiums			
△Income from handling charges and commissions		[illegible]	4,150.94
II. [illegible]		[illegible]	16,706,670,462.24
Including: Operating cost	*V (XVII)*	[illegible]	14,668,840,254.36
△Interest expenses		[illegible]	12,918,952.95
△Handling charges and commissions expenses		[illegible]	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		[illegible]	76,606,057.62
Selling expenses		[illegible]	246,380,167.72
General and administrative expenses	*V (XVIII)*	[illegible]	823,781,461.39
including: Party construction work funds		[illegible]	
Research and development expenses		[illegible]	111,637,505.77
Financial expenses		[illegible]	168,742,077.55
Including: interest expense		[illegible]	116,904,853.63
Interest income		[illegible]	21,616,412.94
Gain or loss on foreign exchange transactions ("-"for gains)		[illegible]	58,995,702.41
Impairment loss on assets	*V(XIV)*		597,755,591.00
Impairment loss on credits	*V(XV)*	[illegible]	
Others			

[illegible]

	Notes	[illegible]	January to June 2017
Plus: Other income		[illegible]	3,369,003.80
Investment income ("-" for losses)		[illegible]	38,315,566.76
Including: Income from investment in associates and joint ventures		[illegible]	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)		[illegible]	1,350,739.32
△Gains from foreign exchange ("-" for losses)		[illegible]	203.78
[illegible]		[illegible]	310,785,704.36
Plus: Non-operating income		[illegible]	10,104,971.36
including: Gains from disposal of non-current assets		[illegible]	1,420,949.40
Gains from exchange of non-monetary assets			
Government grant income		[illegible]	6,664,120.88
Gains from debt restructuring			
Less: Non-operating expenses		[illegible]	96,826,582.11
Including: Losses from disposal of non-current assets		[illegible]	613,601.40
Losses from exchange of non-monetary assets			
Losses from debt restructuring			

	Notes	[illegible]	January to June 2017
[illegible]		[illegible]	224,064,093.61
Less: Income tax expenses		[illegible]	75,966,190.39
[illegible]		[illegible]	148,097,903.22
(1) Classification according to the continuity of operation			
1. Net profit for continuing operations ("-" for losses)		[illegible]	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		[illegible]	124,593,624.45
2. Minority shareholder gains and losses		[illegible]	23,504,278.77
[illegible]		[illegible]	453,607.53
Net after-tax of other comprehensive income attributable to the parent company owner		[illegible]	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			

[illegible]	Notes	[illegible]	January to June 2017
(2) Other comprehensive income that will be reclassified into profit or loss		[illegible]	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		[illegible]	-1,658,563.09
9. Others			
Net after-tax of other comprehensive income attributable to minority shareholders			
[illegible]		[illegible]	148,551,510.75
Total comprehensive income attributable to owners of the parent company		[illegible]	125,047,231.98
Total comprehensive income attributable to minority shareholders		[illegible]	23,504,278.77
[illegible]			
Basic earnings per share *(yuan per share)*	*V (XVIII)*	[illegible]	0.09
Diluted earnings per share *(yuan per share)*	*V (XVIII)*	[illegible]	0.09

Legal representative：　　Chief Accounting Officer：　　Accounting agency head:

Made by: Harbin Electric Company Limited *Monetary unit: RMB YUAN*

Item	*Notes*	[illegible]	January to June 2017
[illegible]			
Cash received from sales of goods and rendering of services		[illegible]	15,343,445,033.41
△Net increase in deposits from customers and due from banks and other financial institutions		[illegible]	-932,598,175.50
△Net increase in borrowings from the central bank			
△Net increase in loans from other financial institutions		[illegible]	
△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		[illegible]	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		[illegible]	309,261,201.06
Cash received from other operating activities		[illegible]	329,251,903.71
[illegible]		[illegible]	15,265,094,487.53
Cash paid for goods purchased and services received		[illegible]	14,335,482,416.02
△Net increase in customers' loans and advances		[illegible]	-22,815,238.05
△Net increase in deposits with central bank and with banks and other financial institutions		[illegible]	-39,750,759.98
△Cash paid for original insurance contract claims			
△Cash paid for interests, handling charges and commissions		[illegible]	9,728,221.40
△Cash paid for policy dividends			
Cash payments to and on behalf of employees		[illegible]	1,302,052,977.60
Cash paid for taxes and surcharges		[illegible]	744,667,213.36
Cash paid for other operating activities		[illegible]	791,272,613.26
[illegible]		[illegible]	17,120,637,443.61
[illegible]		[illegible]	-1,855,542,956.08

[illegible]	*Notes*	[illegible]	January to June 2017
[illegible]			
Cash received from disposal of investments		[illegible]	910,000,000.00
Cash received from returns on investments		[illegible]	21,728,536.46
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		[illegible]	2,311,731.06
Net cash received from disposal of subsidiaries and other business units			
Cash received from other investing activities			
[illegible]		[illegible]	934,040,267.52
Net cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets		[illegible]	579,820,899.94
Cash paid for investments		[illegible]	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		[illegible]	
[illegible]		[illegible]	2,679,820,899.94
[illegible]		[illegible]	-1,745,780,632.42

[illegible]	*Notes*	[illegible]	January to June 2017
[illegible]			
Cash received from absorption of investment			
Including: Cash received by subsidiaries from investments by minority shareholders			
Cash received from borrowings		[illegible]	863,900,000.00
△Cash received from bonds issue			
Cash received from other financing activities		[illegible]	36,453.39
[illegible]		[illegible]	863,936,453.39
Cash paid for debts repayments		[illegible]	15,229,866.10
Cash paid for distribution of dividends and profits or payment of interests		[illegible]	177,329,265.88
Including: Dividends and profits paid to minority shareholders by subsidiaries			
Cash paid for other financing activities		[illegible]	2,136.92
[illegible]		[illegible]	192,561,268.90
[illegible]		[illegible]	671,375,184.49
[illegible]		[illegible]	-48,368,137.26
[illegible]		[illegible]	-2,978,316,541.27
Plus: Beginning balance of cash and cash equivalents		[illegible]	17,204,139,648.41
[illegible]		[illegible]	14,225,823,107.14

Legal representative: Chief Accounting Officer: Accounting agency head:

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

[illegible]	[illegible]
Plus: Adjustments for changes in accounting policies	
Correction of accounting errors in prior periods	
Business combination under the same control	
Others	
[illegible]	[illegible]
[illegible]	
[illegible]	[illegible]
( ) [illegible]	[illegible]
( ) [illegible]	
[illegible]	[illegible]
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	[illegible]
( ) [illegible]	[illegible]
1. Extraction of special reserves	[illegible]
2. Use of special reserves	[illegible]
( ) [illegible]	[illegible]
1. Withdrawal of surplus reserves	
Including: Statutory reserves	
Discretionary fund	
Reserve fund	
Expansion fund of enterprise	
Profits capitalized on return of investment	
2. Withdrawal of general risk reserves	
3. Profits distributed to owners (or shareholders)	[illegible]
4. Others	[illegible]

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	

Legal representative: Chief Accounting Officer: Accounting agency head:

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

Item	January to June 2017														
	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	Total owners' equity
[illegible]	1,376,806,000.00				2,764,208,480.41		-6,938,794.70	15,801,148.88	786,529,945.86		8,496,686,529.09		13,433,093,309.54	1,209,321,445.94	14,642,414,755.48
Plus: Adjustments for changes in accounting policies															
Correction of accounting errors in prior periods															
Business combination under the same control															
Others															
[illegible]	1,376,806,000.00				2,764,208,480.41		-6,938,794.70	15,801,148.88	786,529,945.86		8,496,686,529.09		13,433,093,309.54	1,209,321,445.94	14,642,414,755.48
[illegible]							453,607.53	4,635,451.54			83,289,444.45		88,378,503.52	21,415,081.05	109,793,584.57
( ) [illegible]							453,607.53				124,593,624.45		125,047,231.98	23,504,278.77	148,551,510.75
( ) [illegible]															
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															
( ) [illegible]								4,635,451.54					4,635,451.54	372,753.63	5,008,205.17
1. Extraction of special reserves								11,493,647.86					11,493,647.86	1,699,469.00	13,193,116.86
2. Use of special reserves								-6,858,196.32					-6,858,196.32	-1,326,715.37	-8,184,911.69
( ) [illegible]											-41,304,180.00		-41,304,180.00	-2,461,951.35	-43,766,131.35
1. Withdrawal of surplus reserves															
Including : Statutory reserves															
Discretionary fund															
Reserve fund															
Expansion fund of enterprise															
Profits capitalized on return of investment															
2. Withdrawal of general risk reserves															
3. Profits distributed to owners (or shareholders)											-41,304,180.00		-41,304,180.00	-2,461,951.35	-43,766,131.35
4. Others															

Item	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	Total owners' equity
	January to June 2017														
	Equity attributable to owners of the parent company														
		Other equity instrument													
( )															
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															
( )															
	1,376,806,000.00				2,764,208,480.41		-6,485,187.17	20,436,600.42	786,529,945.86		8,579,975,973.54		13,521,471,813.06	1,230,736,526.99	14,752,208,340.05

Legal representative: Chief Accounting Officer: Accounting agency head:

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(I) Company profile

Harbin Electric Company Limited (the "company") was initially and was formed through the restructuring of Harbin Electric Corporation ("HE Corporation") and its three affiliates: Harbin Electrical Machinery Works, Harbin Boiler Works and Harbin Turbine Works. The Company was established in Harbin on October 6, 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 November 5, 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.

(I) Basis of preparation

Based on going concern and actual transactions and events, the Company prepared financial statements in accordance with the basic and specific standards of the Accounting Standards for Business Enterprises, and relevant regulations issued by the Ministry of Finance (hereinafter collectively referred to as "CAS"), and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting(revised in 2014) issued by the China Securities Regulatory Commission, and Hong Kong Stock Exchange's Rules Governing the Listing of Securities and the Hong Kong Companies Ordinance.

(II) Going concern

For the reporting period and at least 12 months since the end of the reporting period, the Company's production and operation was stable with reasonable asset and liability structure, therefore it is capable of continuing as a going concern and there's no significant risk affecting its ability to continue as a going concern.

The following disclosures cover the specific accounting policies and accounting estimates formulated by the Company according to the characteristics of its production and operation.

Among them, the accounting policy for bad debts of trade receivables is:

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

Bases for making judgement and standard for calculation the amount for the accounts receivable that are individually significant The amount of accounts receivable of more than RMB30 million (including RMB30 million) and other receivables of more than RMB10 million (including RMB10 million) are recognized as accounts receivable that are individually significant.

1. Accounts receivable that are individually significant and subject to separate provision Individually significant accounts receivable: (Continued)

   Recognition of receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts The Company assesses individually significant receivables for impairment on individual basis, financial assets which is not impaired on individual basis will be assessed for impairment collectively with a portfolio of financial assets which share similar credit risk characteristics. For receivables that are individually impaired, the receivable will not be assessed for impairment collectively with a portfolio of financial assets which share similar credit risk characteristics.

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

Aging Group	Except the receivables with separate impairment provision, the Company recognizes the group of receivables classified by specific credit risk for the current year according to actual loss ratio of the same or similar group of receivables classified by aging group with similar credit risk characteristics as well as the prevailing condition, and the provision for bad debt are measured in accordance with the ratio of the following table.

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

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

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

	(%)	(%)
Within 1 year (including 1 year)	0–5	0–5
1 to 2 years	5–25	5–25
2 to 3 years	50	50
3 to 4 years	80	80
4 to 5 years	80	80
Over 5 years	100	100

The Company does not make provision for bad debt for retention monies.

3. Accounts receivable which are individually insignificant but subject to separate bad debt provision

For individually insignificant accounts receivable with the following characteristics, if there is objective evidence that the receivables are impaired, will be subject to separate impairment test. The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount.

Accounts receivable not provided for bad debt:

A. Accounts receivable between related parties.

B. For organisations such as the competent department for the relevant industry, industry associations, accounts receivable in guarantee and deposit nature. For internal department of enterprises or incurred by existing employees for the operating of business, accounts receivable in borrowing and reserve nature. Except there is evidence of impairment, no provision for impairment is required for the above accounts receivable.

(I) Statement of compliance with corporate accounting standards

The financial statements prepared by the company follow the requirements of the Accounting Standards for Business Enterprises, and truly and completely reflect the financial status, operating results, cash flow and other relevant information of the company during the reporting period.

(II) Accounting period

The accounting period of the Company is from 1 January to 31 December of each calendar year.

(III) Operating Cycle

The company's operating cycle is 12 months.

(IV) Reporting currency

The company uses RMB as the bookkeeping base currency.

(V) Principle of measurement

The consolidated financial statements are measured using the historical cost method, except that certain financial instruments are measured at fair value.

(VI) Changes in important accounting policies and accounting estimates

1. *Important accounting policy changes*

(1) Implementation of "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standards for Business Enterprises No. 24 – Hedge Accounting" and "Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments"

(VI) Changes in important accounting policies and accounting estimates (Continued)

1. *Important accounting policy changes (Continued)*

(1) (Continued)

In 2017, the Ministry of Finance revised the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standards for Business Enterprises No. 24 – Hedge Accounting" and "Accounting Standards for Business Enterprises No. 37 – Financial Instruments Presentation". The above revised standards shall come into force on January 1, 2018. According to the guidelines, for financial instruments that have not been terminated for confirmation on the date of implementation, if the previous confirmation and measurement are inconsistent with the revised guidelines, they shall be retrospectively adjusted. If the data relating to the prior period comparison financial statements are inconsistent with the revised guidelines, adjustment has been made. On January 1, 2018, the Company adjusted the retained earnings and other comprehensive income at the beginning of the year due to the cumulative impact of retrospective adjustment. The main impacts of implementing the above criteria are as follows:

(VI) Changes in important accounting policies and accounting estimates (Continued)

1. Important accounting policy changes (Continued)

(1) (Continued)

(1) Because the report project name change, the "measured at fair value through profit or loss Financial assets (liabilities)" is reclassified as "trading financial assets (liabilities)".	Financial assets (liabilities) measured at fair value through profit or loss trading financial assets (liabilities)	Consolidated statements: Financial assets measured at fair value through profit or loss at the end of the period reduced by RMB1,028,636,621.75; Trading financial assets increased by RMB1,028,636,621.75.
(2) Non-tradable available-for-sale equity instrument investments are designated as "financial assets measured at fair value through other comprehensive income."	Available-for-sale financial assets and other equity instruments investment	Consolidated statements: available-for-sale financial assets decreased by RMB107,095,000.00 at the end of the period; other equity instruments increased by RMB107,095,000.00; the available-for-sale financial assets decreased by RMB85,895,000.00 at the beginning of the period, and other equity instruments increased by RMB85,895,000.00.

(VI) Changes in important accounting policies and accounting estimates (Continued)

1. Important accounting policy changes (Continued)

(2) Implementation of the "Accounting Standards for Business Enterprises No. 14 – Income"

In 2017, the Ministry of Finance revised the "Accounting Standards for Business Enterprises No. 14 – Revenue" (revised in 2017). The revised standard stipulates that the first implementation of the standard should adjust the retained earnings at the beginning of the year and other related items in the financial statements based on the cumulative impact, and the information for the comparable period will not be adjusted. According to the guidelines, the company only adjusts the cumulative impact of contracts that have not been completed on the first implementation date. The main effects of implementing the guidelines are as follows:

(VI) Changes in important accounting policies and accounting estimates (Continued)

1. *Important accounting policy changes (Continued)*

(2) (Continued)

Add contract assets and contract liabilities to the balance sheet.	Inventory, contract assets, advance receipts, contract liabilities	Consolidated statements: inventory decreased by RMB3,676,585,761.88 at the end of the period, contract assets increased by RMB3,676,585,761.88; advance receipts decreased by RMB16,190,208,363.72, and contract liabilities increased by RMB16,190,208,363.72.

(VI) Changes in important accounting policies and accounting estimates (Continued)

1. *Important accounting policy changes (Continued)*

(3) On June 15, 2018, the Ministry of Finance issued the Notice of the Ministry of Finance on Revising the Format of the General Enterprise Financial Statements for 2018 (Accounting (2018) No. 15), and revised the financial statement format of general enterprises. The main impacts of the Company's implementation of the above provisions are as follows:

(1) The "Notes receivable" and "Accounts receivable" in the balance sheet are combined as "Notes receivable and accounts receivable"; (2) The "Notes payable" and "Accounts payable" are combined into "Notes payable and accounts payable";	Notes receivable, accounts receivable, notes receivable and accounts receivable, notes payable, accounts payable, bills payable and accounts payable, interest receivable, dividends receivable, other receivables, interest payable, dividends payable, other payables, fixed assets clean-up, fixed assets, construction materials, construction in progress, special payables, long-term payables	(1) The "notes receivable" and "accounts receivable" are combined into "notes receivable and accounts receivable", the closing balance is RMB14,518,972,764.04, and the opening balance is RMB14,951,037,967.00; (2) The "Notes payable" and "Accounts payable" are combined into "Notes payable and accounts payable", the closing balance is RMB18,276,609,521.90, and the opening balance is RMB19,531,513,198.03;

(VI) Changes in important accounting policies and accounting estimates (Continued)

1. *Important accounting policy changes (Continued)*

(3) (Continued)

(3) "Interest receivable" and "dividends receivable" are included in "other receivables";	(3) Increase RMB7,026,106.35 at the closing balance of "other receivables", as well as RMB3,421,850.59 at the opening balance of "other receivables";
(4) "Interests payable" and "dividends payable" are included in the "other payables" list;	(4) Increase RMB41,237,281.84 at the closing balance of "other payables", as well as RMB128,669,187.95 at the opening balance of "other payables";
(5) "Fixed assets clean-up" is incorporated into "fixed assets";	(5) Increase RMB0.00 at the closing balance of "fixed assets", as well as RMB201,003.47 at the opening balance of "fixed assets";

(VI) Changes in important accounting policies and accounting estimates (Continued)

1. *Important accounting policy changes (Continued)*

(3) (Continued)

(6) "Construction materials" are included in the "construction in progress";	(6) Increase RMB11,784,648.55 at the closing balance of "construction in progress", as well as RMB3,719,461.29 at the opening balance of "construction in progress";
(7) "Special payables" are included in "Long-term payables". The comparison data is adjusted accordingly;	(7) Increase RMB484,953,994.29 at the closing balance of "long-term payables", as well as RMB484,953,994.29 at the opening balance of "long-term payables";
(8) Add a "R&D Expenses" item to the income statement, and reclassify the R&D expenses in the "Administrative Expenses" to "R&D Expenses" separately;	(8) The amount of "R&D expenses" increased by RMB137,705,140.13, and the amount of the previous period increased by RMB111,637,505.77. The amount of "administrative expenses" decreased by RMB137,705,140.13, and the amount of the previous period decreased by RMB111,637,505.77;

(VI) Changes in important accounting policies and accounting estimates (Continued)

1. Important accounting policy changes (Continued)

(3) (Continued)

(9) Add a "credit impairment loss" item to the income statement. And the bad debt losses, claims losses, other claims losses, and contract asset impairment losses in the original "asset impairment losses" are reclassified to "credit impairment losses".	(9) "Credit impairment loss" increased by RMB320,252,270.86 in current period; "asset impairment loss" decreased by RMB320,252,270.86 in current period.

2. Important accounting estimate change

None.

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

(I) Main types of taxes and tax rates

Value-added Tax	Output VAT is calculated on product sales and taxable services revenue, based on tax laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable	3%、6%、10%、16%
City maintenance and construction tax	Based on business tax paid,VAT and sale tax	7%
Enterprise income tax	Based on taxable profits	15%、25%

According to the Notice of the State Administration of Taxation under the Ministry of Finance on Adjusting the Value-Added Tax Rate (Cai Shui [2018] No. 32), the VAT rate of the manufacturing industry will be reduced from 17% to 16%, and the VAT rate for transportation, construction, basic telecommunications services and agricultural products will be reduced from 11% to 10% from May 1, 2018.

(II) Tax incentives

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 August 28, 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.

Except for certain subsidiaries enjoying a corporate income tax rate of 15% (six months ended June 30, 2018: 15%), other subsidiaries located in China shall pay Chinese corporate income tax at a corporate income tax rate of 25% (six months ended June 30, 2018: 25%).

(III) 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.

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

(IV) 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.

(I) Notes receivable and accounts receivable

	[illegible]	31 December 2017
Notes receivable	[illegible]	4,362,451,678.86
Accounts receivable	[illegible]	10,588,586,288.14
Total	[illegible]	14,951,037,967.00

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(I) Notes receivable and accounts receivable (Continued)

1. *Notes receivable*

(1) Classified by types of notes receivable

[illegible]	[illegible]	31 December 2017
Bank promissory notes	[illegible]	3,456,249,576.99
Commercial promissory notes	[illegible]	906,202,101.87
Total	[illegible]	4,362,451,678.86

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

2. *Accounts receivable*

(1) Disclosure by types of accounts receivable

	[illegible]					31 December 2017				
	[illegible]		[illegible]			Remaining carrying amount		Provision for bad debt		
	[illegible]	[illegible] (%)	[illegible]	[illegible] (%)	[illegible]	Amount	Ratio (%)	Amount	Provided Ratio (%)	Carrying Value
Accounts receivable which are individually significant and provided for bad debt separately	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	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	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	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	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	206,917,017.25	1.28	128,219,569.60	61.97	78,697,447.65
Total	[illegible]	/	[illegible]	/	[illegible]	16,222,531,095.81	/	5,633,944,807.67	/	10,588,586,288.14

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(I) Notes receivable and accounts receivable (Continued)

2. *Accounts receivable (Continued)*

(1) Disclosure by types of accounts receivable (Continued)

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

			(%)	
Ministry of Irrigation & Water Resources of Republic of Sudan etc.	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]

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

			(%)	
National Electricity Corporation of Sudan. etc.	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]

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

(I) Notes receivable and accounts receivable (Continued)

2. Accounts receivable (Continued)

(1) Disclosure by types of accounts receivable (Continued)

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

[illegible]	[illegible]			31 December 2017		
	[illegible]	[illegible]	[illegible] (%)	Accounts receivable	Provision for bad debt	Provided ratio (%)
Within 1 year	[illegible]	[illegible]	[illegible]	6,139,474,339.38	288,959,284.32	4.71
1–2years	[illegible]	[illegible]	[illegible]	2,940,828,553.75	705,792,023.29	24.00
2–3years	[illegible]	[illegible]	[illegible]	1,733,917,383.92	666,894,996.53	38.46
3–4years	[illegible]	[illegible]	[illegible]	1,383,981,084.23	793,660,767.19	57.35
4–5years	[illegible]	[illegible]	[illegible]	893,527,546.73	477,947,173.30	53.49
Over 5 years	[illegible]	[illegible]	[illegible]	2,340,769,005.99	2,119,144,855.25	90.53
Total	[illegible]	[illegible]	/	15,432,497,914.00	5,052,399,099.88	/

(2) Provision, transfer and recovery of bad debts in the period

Net value of provision, transfer and recovery of bad debts in the period was RMB337,094,731.34.

(3) Accounts receivable actually written off in the current period

The amount of accounts receivable actually written off from January 1, 2018 to June 30, 2018 was RMB9,055,235.25.

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

[illegible]

(II) Advances to suppliers

Advances to suppliers are listed by age

[illegible]	[illegible]			31 December 2017		
	[illegible]	[illegible] (%)	[illegible]	Book balance	Ratio (%)	Bad debt provision
Within 1 year	[illegible]	[illegible]		4,033,563,401.69	74.72	
1–2 years	[illegible]	[illegible]		746,833,483.66	13.83	279,869.02
2–3 years	[illegible]	[illegible]	[illegible]	357,438,347.29	6.62	279,905.13
Over 3 years	[illegible]	[illegible]	[illegible]	260,459,984.07	4.83	7,884,185.68
Total	[illegible]	[illegible]	[illegible]	5,398,295,216.71	100.00	8,443,959.83

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

(III) Other receivables

	[illegible]	31 December 2017
Interests receivable	[illegible]	3,277,397.20
Dividends receivable	[illegible]	144,453.39
Other receivables	[illegible]	953,565,790.29
Total	[illegible]	956,987,640.88

1. *Interests receivable*

	[illegible]	31 December 2017
Fixed deposit	[illegible]	2,096,712.27
Bond investment		1,180,684.93
Total	[illegible]	3,277,397.20

2. *Dividends receivable*

	[illegible]	31 December 2017
Harbin Dongli Real Estate Development Co., Ltd.	[illegible]	144,453.39
Total	[illegible]	144,453.39

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(III) Other receivables (Continued)

3. *Other receivables*

(1) Disclosure of other receivables classified by type:

	[illegible]					31 December 2017				
	[illegible]		[illegible]		[illegible]	Book balance		Bad debt provision		Carrying Value
	[illegible]	[illegible] (%)	[illegible]	[illegible] (%)		Amount	Ratio (%)	Amount	Provided ratio (%)	
Other receivables which are individually significant and provided for bad debt separately	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	553,432,092.48	45.78	24,513,082.20	4.43	528,919,010.28
Other receivables provided for bad debt by credit risk characteristics	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	260,950,334.75	21.58	204,569,695.20	78.39	56,380,639.55
Other receivables which are individually not significant but provided for bad debt separately	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	394,585,307.53	32.64	26,319,167.07	6.67	368,266,140.46
Total	[illegible]	/	[illegible]	/	[illegible]	1,208,967,734.76	/	255,401,944.47	/	953,565,790.29

Other receivables which are individually significant and provided for bad debt separately

[illegible] ( )	[illegible]	[illegible]	[illegible] (%)	[illegible]
CELECT. etc	[illegible]	[illegible]	[illegible]	/
Total	[illegible]	[illegible]	[illegible]	/

(III) Other receivables (Continued)

3. *Other receivables (Continued)*

(1) Disclosure of other receivables classified by type: (Continued)

Other receivables which are individually not significant but provided for bad debt separately:

[illegible]	[illegible]	[illegible]	[illegible] (%)	[illegible]
Reserve money, etc.	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(III) Other receivables (Continued)

3. Other receivables (Continued)

(1) Disclosure of other receivables classified by type: (Continued)

In the portfolio, other receivables provided for bad debt according to aging analysis are as follows:

[illegible]	[illegible]	[illegible]	[illegible]	31 December 2017		
	[illegible]	[illegible]	[illegible] (%)	Other receivables	Provision for bad debt	Provided ratio (%)
Within 1 year	[illegible]	[illegible]	[illegible]	49,738,479.97	2,486,866.91	5.00
1–2years	[illegible]	[illegible]	[illegible]	2,392,280.13	595,243.75	24.88
2–3years	[illegible]	[illegible]	[illegible]	104,718.50	52,359.25	50.00
3–4years	[illegible]	[illegible]	[illegible]	23,298,484.26	18,638,787.41	80.00
4–5years	[illegible]	[illegible]	[illegible]	13,099,670.06	10,479,736.05	80.00
Over 5 years	[illegible]	[illegible]	[illegible]	172,316,701.83	172,316,701.83	100.00
Total	[illegible]	[illegible]		260,950,334.75	204,569,695.20	

(III) Other receivables (Continued)

3. Other receivables (Continued)

(2) Provision, return and recovery of bad debts in this period

Net value of provision, return and recovery of bad debts in this period is RMB-15,296,190.29.

(3) Other receivables that are not written off during the period.

(IV) Other current assets

[illegible]	[illegible]	31 December 2017
Bank financial products	[illegible]	2,538,636,621.75
Entrusted loans	[illegible]	200,000,000.00
Input tax and prepaid VAT to be deducted	[illegible]	270,993,438.53
Others		
Total	[illegible]	3,009,630,060.28

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

(V) Changes in long-term assets such as investment real estate, fixed assets and intangible assets

For the six months ended June 30, 2018, The Group has disposed of certain plant and machinery equipment with a carrying amount of RMB2,523,606.23 (six months ended 30 June 2017: RMB11,754,431.51) in exchange for proceeds of RMB2,840,930.08 (Six months ended June 30, 2017: RMB13,105,170.83), and the proceeds from the disposal were approximately RMB317,323.85 (six months ended 30 June 2017: income of RMB1,350,739.32).

For the six months ended June 30, 2018, the Group spent approximately RMB251,823,389.65(six months ended 30 June 2017: RMB627,443,709.47), which was mainly used for construction in progress, machinery and equipment, transportation equipment, etc. and increased production capacity.

The Group's net book value of the Group's plant and machinery was RMB0.00 (as at 30 June 2017: RMB0.00).

(VI) Short-term borrowings

1. *Type of short-term borrowings*

		31 December 2017
Mortgage loan	[illegible]	15,900,000.00
Guaranteed loan	[illegible]	330,000,000.00
Credit loan	[illegible]	2,737,668,542.78
Total	[illegible]	3,083,568,542.78

(VI) Short-term borrowings (Continued)

2. Mortgage loan

	[illegible]	31 December 2017
Chengdu Rural Commercial Bank Co., Ltd	[illegible]	15,900,000.00
Total	[illegible]	15,900,000.00

(VII) Notes payable and accounts payable

	[illegible]	31 December 2017
Notes payable	[illegible]	5,479,804,293.43
Accounts payable	[illegible]	14,051,708,904.60
Total	[illegible]	19,531,513,198.03

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

(VII) Notes payable and accounts payable (Continued)

1. *Notes payable*

	[illegible]	31 December 2017
Bank promissory notes	[illegible]	4,570,861,423.55
Commercial promissory notes	[illegible]	908,942,869.88
Total	[illegible]	5,479,804,293.43

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

2. *Accounts payable*

List of accounts payable

	[illegible]	31 December 2017
Within 1 year	[illegible]	11,359,184,726.32
1–2 years	[illegible]	1,328,277,162.52
2–3 years	[illegible]	586,962,812.92
Over 3 years	[illegible]	777,284,202.84
Total	[illegible]	14,051,708,904.60

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(XIII) Other current liabilities

[illegible]	[illegible]	31 December 2017
Other	[illegible]	134,893.80
Total	[illegible]	134,893.80

(IX) Non-current liabilities due within one year

1. *Details of Non-current liabilities due within one year*

[illegible]	[illegible]	31 December 2017
Long-term borrowings due within one year		
Bonds payable due within one year		2,999,707,500.00
Long-term payables within one year		
Total		2,999,707,500.00

(IX) Non-current liabilities due within one year (Continued)

2. *Change in Non-current liabilities due within one year*

Notes 1 : On February 18, 2013, the China Securities Regulatory Commission approved the document "Zheng Jian Li [2013] No. 159" and approved the company to publicly issue corporate bonds with a total face value of no more than 4 billion yuan. On March 11, 2013, the company publicly issued Harbin Electric Co., Ltd. 2012 corporate bonds (the first phase) to the public, raising a total of 3 billion yuan, with a coupon rate of 4.9% per annum, paying interest on March 11 each year, the interest-bearing period is from March 11, 2013 to March 11, 2018. The current bond will be interest-bearing on a yearly basis, excluding compound interest. The interest is paid once a year, once a year due, and the last interest is paid with the redemption of the principal. The current bond is provided by Harbin Power Group with a full and unconditional irrevocable joint liability guarantee.

Note 2: The reason for the decrease in the current period is that the corporate bonds expired on March 31, 2018, and the company has paid the last interest and principal.

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(X) Financial leasing

1. Fixed assets leased through finance leases

None.

2. Financial lease payable

None.

(XI) Share capital

	31 December 2017	
Harbin Electric Corporation	1,030,952,000.00	[illegible]
Overseas-listed shares	675,571,000.00	[illegible]
Total	1,706,523,000.00	[illegible]

(XII) Incomes and division's documents

1. *Basis of reporting division and accounting policy*

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 decide by the actual price and the indirectly expenses of divisions should allocate by ratios. The assets should allocate 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.

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

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

2. *Financial information of divisions*

(1) Assets, liabilities and income of divisions

Reportable assets of divisions	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Reportable liabilities of divisions	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Revenue of divisions							
External customer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Internal customer	[illegible]					[illegible]	[illegible]
Reportable revenue of divisions	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Reportable revenue of gross profit	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

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

2. Financial information of divisions (Continued)

(1) Assets, liabilities and income of divisions (Continued)

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
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
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

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

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

2. Financial information of divisions (Continued)

(2) Assets, revenue and liabilities of divisions

	[illegible]	31 December 2017
[illegible]		
Reportable assets of divisions	[illegible]	70,201,843,933.22
Offset division's accounts from related parties	[illegible]	-20,122,713,238.83
Reportable net assets of divisions	[illegible]	50,079,130,694.39
Deferred tax assets	[illegible]	430,581,741.83
Financial assets held for trading	[illegible]	
Deposit in bank	[illegible]	12,155,831,808.52
Deposit in central bank	[illegible]	747,561,319.78
Cash and cash equivalents	[illegible]	107,033,625.67
Unallocated assets of head office and the company	[illegible]	1,317,953,882.79
Total assets	[illegible]	64,838,093,072.98
[illegible]		
Reportable liabilities of divisions	[illegible]	56,363,147,678.61
Offset division's accounts from related parties	[illegible]	-8,721,527,596.46
Reportable net liabilities of divisions	[illegible]	47,641,620,082.15
Tax payable	[illegible]	240,442,949.52
Deferred income tax liabilities		7,280,974.79
Unallocated liabilities of head office and the company	[illegible]	806,597,387.90
Total liabilities	[illegible]	48,695,941,394.36

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

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

2. Financial information of divisions (Continued)

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

	[illegible]	January to June in 2017
External revenue	[illegible]	16,778,045,409.53
Internal revenue	[illegible]	1,071,156,322.45
Total revenue	[illegible]	17,849,201,731.98
Reportable gross profit	[illegible]	2,102,003,836.72
Offset losses between divisions	[illegible]	-7,201,318.45
External customers' reportable gross profit	[illegible]	2,109,205,155.17
Long-term equity investment account by equity method	[illegible]	20,089,218.32
Interests income	[illegible]	220,472,412.02
Chinese government grants	[illegible]	6,664,120.88
Profit and loss of trading financial assets	[illegible]	-2,484,906.61
Interest expenses	[illegible]	129,823,806.58
Impairment losses for long-term assets such as fixed assets and intangible assets	[illegible]	
Undistributed other revenue and net revenue	[illegible]	17,707,274.80
Undistributed expenses of head office and the company	[illegible]	2,017,765,374.39
Total profit	[illegible]	224,064,093.61

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

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

2. Financial information of divisions (Continued)

(3) Regional information

	[illegible]	January to June in 2017
1. Domestic (China)	[illegible]	10,127,786,402.60
2. Overseas :		
– Pakistan Islamic Community	[illegible]	2,325,566,845.29
– Republic of Turkey	[illegible]	1,022,960,524.95
– The United Arab Emirates	[illegible]	1,100,519,963.49
– Republic of Ecuador	[illegible]	855,001,465.26
– Bangladesh People's Republic	[illegible]	468,950,101.73
– Republic of Indonesia	[illegible]	113,678,226.86
– Other countries	[illegible]	763,581,879.35
Overseas subtotals	[illegible]	6,650,259,006.93
Total	[illegible]	16,778,045,409.53

(XIII) Administrative expenses

For the six months ended June 30, 2018, the administrative expenses incurred amounted to RMB757,860,374.13 (For the six months ended June 30, 2017, the amount of management expenses was RMB823,781,461.39), mainly for labor costs, depreciation and amortization expenses.

(XIV) Impairment on assets

	[illegible]	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		597,755,591.00

(XV) Impairment on credits

	[illegible]	January to June in 2017
Bad debt loss	[illegible]	
Contract assets impairment losses	[illegible]	
Loan impairment losses	[illegible]	
Total	[illegible]	

Note: In the current period, provision for impairment of accounts receivable and other receivables is RMB321,724,211.70. This impairment provision will be used directly to write off the accounts receivable and other receivables only if the amount of the portion is less likely to be recovered by the Group.

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

(XVI) Profit before tax and amortization depreciation

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

(XVII) Dividend

	[illegible]	January to June in 2017
Dividend of per share RMB0.015 at the 2017 closing balance	[illegible]	
Dividend of per share RMB0.03 at the 2016 closing balance		41,304,180.00
Total	[illegible]	41,304,180.00

The Directors do not recommend any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB zero).

(XXIII) Earnings per share

	[illegible]	January to June in 2017
Shareholders' net profit attributable to parent company	[illegible]	124,593,624.45
During the period of the weighted average number of shares of common shares outstanding	[illegible]	1,376,806,000.00
Earnings per share	[illegible]	0.09

Note: There were no dilutive ordinary shares outstanding for the six months ended June 30, 2018 and 2017, and diluted earnings per share were the same as basic earnings per share.

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(XIX) Assets with restricted ownership or use rights

[illegible]	31 December 2017	[illegible]	[illegible]	[illegible]
I. Assets for collateral				
1. Fixed assets (buildings and plants)	90,371,372.40		381,690.34	[illegible]
2. Intangible assets (land right to use)	31,389,048.73		1,889,396.90	[illegible]
3. Fixed assets(machinery equipments)				
II. Restricted assets of ownership or use caused by other reasons				
including: monetary funds	958,947,389.47		264,606,416.79	[illegible]
Total	1,080,707,810.60		266,877,504.03	[illegible]

(I) Connected transactions

The transaction price between the Company and related parties is the price of the agreement, the price is consistent with transaction prices with a non-related party.

1. Continuing connected transactions

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

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(I) Connected transactions (Continued)

1. *Continuing connected transactions (Continued)*

(1) Products and services transactions

		January to June in 2017
Sales of goods		
– company under common control		4,913,971.87
Procurement of goods		
– company under common control		35,659,138.82
Service fee income		
– holding company		
Service fee expenses		
– company under common control		26,745,249.12

[illegible]

(I) Connected transactions (Continued)

1. *Continuing connected transactions (Continued)*

(2) Interests to be paid for absorbing deposits

[illegible]	[illegible]	January to June in 2017
Holding company	[illegible]	9,152,857.43
Company under common control	[illegible]	565,548.95
Total	[illegible]	9,718,406.38

(3) Interest income from loans and discounted bills

[illegible]	[illegible]	January to June in 2017
Company under common control	[illegible]	4,887.43
Total	[illegible]	4,887.43

(I) Connected transactions (Continued)

1. Continuing connected transactions (Continued)

(4) Fee and commission income

	[illegible]	January to June in 2017
Company under common control	[illegible]	
Total	[illegible]	

(5) Entrusted loan interest income

	[illegible]	January to June in 2017
Company under common control	[illegible]	3,776,498.00
Total	[illegible]	3,776,498.00

(I) Connected transactions (Continued)

1. *Continuing connected transactions (Continued)*

(6) Consignment management fees

			January to June in 2017
Harbin Electric Group Co., Ltd.	Commissioned agency fees	[illegible]	1,640,000.00
Total		[illegible]	1,640,000.00

(7) Remuneration of key management

		January to June in 2017
Remuneration of key management	[illegible]	1,655,915.19

[illegible]

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

[illegible]

(II) Receivables from and payable to related parties

1. *Receivable items*

[illegible]	[illegible]	[illegible]	31 December 2017	
			Remaining carrying amount	Provision for bad debt
Accounts receivable				
	Company under common control	[illegible]	40,000.00	
Prepayments				
	Company under common control	[illegible]	41,819,778.65	
	Joint venture	[illegible]		
Other receivables				
	Holding company	[illegible]	162,095,125.59	
	Company under common control	[illegible]	71,319,538.25	
	Joint venture	[illegible]	469,681.72	
Interests receivable				
	Company under common control	[illegible]	239,250.00	
Other current assets				
	Company under common control	[illegible]		

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(II) Receivables from and payable to related parties (Continued)

2. *Payable items*

[illegible]	[illegible]	[illegible]	31 December 2017
Short-term borrowings			
	Holding company	[illegible]	
Absorbed deposits			
	Holding company	[illegible]	643,164,117.73
	Company under common control	[illegible]	158,966,485.09
	Joint venture	[illegible]	897,146.87
Accounts payable			
	Holding company		
	Company under common control	[illegible]	33,857,045.86
	Joint venture	[illegible]	2,686,460.92
Notes payable			
	Holding company	[illegible]	8,820,251.60
	Company under common control	[illegible]	2,105,182.07
Long-term payables			
	Holding company	[illegible]	3,500,00.00
Interests payable			
	Holding company		4,086,954.84
	Company under common control		183,786.35

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(III) Commitments of related parties

None.

(IV) Guarantee of related parties

None.

None.

(1) Important commitments

1. Capital commitments

Unit: ten thousand RMB

	[illegible]	31 December 2017
Having been signed but not yet recognized in the financial statements – Commitment to purchase long-term assets	[illegible]	14,372.11

2. *By the end of June.30, 2018, the company does not have other commitments which need to be disclosed.*

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

(2) Contingencies

1. *Guarantees within and outside the group*

	Total (to the company within the group)						2,164,743,108.05	901,776,157.83			
1	Harbin Electric Machinery Co., Ltd.	Harbin Steam Turbine Factory Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	330,000,000.00		Normal operation	None	None
2	Harbin Electric Machinery Co., Ltd.	Harbin Electric Machinery Factory (Zhenjiang) Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	130,000,000.00		Normal operation	None	None
3	Harbin Steam Turbine Factory Co., Ltd.	Harbin Boiler Factory Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	174,870,800.00	14,716,200.00	Normal operation	None	None
4	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	67,957,500.00		Normal operation	None	None
5	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	149,838,000.00		Normal operation	None	None
6	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	168,810,700.58		Normal operation	None	None
7	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	20,257,284.10		Normal operation	None	None
8	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	78,640,992.30		Normal operation	None	None
9	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	19,660,248.02		Normal operation	None	None
10	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	19,660,248.02		Normal operation	None	None
11	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	107,748,784.19		Normal operation	None	None
12	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	555,088,959.54	555,088,959.54	Normal operation	None	None

For the year ended on 30 June 2018
(Unless otherwise stated, all amounts are denominated in Renminbi)

(2) Contingencies (Continued)

1. *Guarantees within and outside the group (Continued)*

13	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	10,042,350.30	10,042,350.30	Normal operation	None	None
14	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	7,461,382.53	7,461,382.53	Normal operation	None	None
15	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	314,467,265.46	314,467,265.46	Normal operation	None	None
16	Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	Harbin Electric Power Equipment Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	4,290,000.00		Normal operation	None	None
17	Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	Harbin Electric Power Equipment Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	5,220,852.00		Normal operation	None	None
18	Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	Harbin Electric Power Equipment Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	727,741.00		Normal operation	None	None

2. *Significant pending litigation*

None.

3. *By the end of June 30, 2018, the company has no other major contingent issues that need to be disclosed.*

None.

August 28, 2018

哈爾濱電氣股份有限公司

Block 3
Nangang District High Technology
Production Base
Harbin
Heilongjiang Province
People's Republic of China
Taxpayer's Identification Number:
912301001275755573H

1399 Chuangxinyi Road
Songbei District
Harbin
Heilongjiang Province
People's Republic of China
Postcode: 150028
Tel: 86-451-82135727 or 58590070
Fax: 86-451-82162088

Room 1601, 16th Floor
LHT Tower
31 Queen's Road Central
Hong Kong

www.hpec.com

Mr. Si Ze-fu

Mr. Wu Wei-zhang
Mr. Ai Li-song

Mr. Ai Li-song

Mr. Tung Tat Chiu, Michael

as to PRC Law

H Shares

Stock Code: 1133