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哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

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

(Stock Code: 1133)

INTERIM RESULTS ANNOUNCEMENT 2019

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 2019, 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 currency mentioned in this report was Renminbi.

CONSOLIDATION BALANCE SHEET

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Items	Notes	June 30, 2019	December 31, 2018
Current assets:			
Cash and cash equivalents		10,252,535,894.38	12,543,251,700.19
Provision of settlement fund			
Funds lent		400,000,000.00	600,000,000.00
Financial assets held for trading			
Financial derivative			
Notes receivables		1,664,337,085.77	3,112,281,635.68
Account receivables	11	6,926,528,653.05	6,674,746,317.19
Receivable financing			
Advances to suppliers		4,029,038,571.97	3,592,286,216.57
Insurance premiums receivable			
Cession premiums receivable			
Provision of cession receivable			
Other receivables		1,119,128,393.36	1,270,159,303.49
Recoursable financial assets acquired			
Inventories		11,008,639,340.68	10,454,912,311.25
Including: raw materials		3,359,877,502.38	3,212,257,379.48
Stock goods (finished goods)		363,299,098.48	344,585,898.98
Contractual assets		9,905,724,518.35	8,233,457,249.78
Assets classified as held for sale			
Non-current assets due within one year			49,955,000.00
Other current assets		499,709,436.29	781,645,718.79
Total current assets		45,805,641,893.85	47,312,695,452.94

CONSOLIDATION BALANCE SHEET (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Items	Notes	June 30, 2019	December 31, 2018
Non-current assets:			
Loans and advances		30,533,267.79	
Debt investments			
Other debt investments			
Long-term receivables		2,946,987.63	3,358,126.45
Long-term equity investment		202,088,275.45	182,173,650.81
Other equity instruments investment		629,167,513.71	716,953,772.26
Other non-current financial assets			
Investment property		191,181,509.29	233,173,255.85
Fixed Assets original costs		14,187,878,938.20	13,874,960,800.37
Less: Accumulated depreciation		8,236,148,547.51	7,957,808,438.89
Net value of fixed assets		5,951,730,390.69	5,917,152,361.48
Less: impairment of fixed assets		49,133,404.86	48,442,947.49
Net book value of fixed assets		5,902,596,985.83	5,868,709,413.99
Construction in progress		502,870,453.89	664,086,992.85
Bearer biological assets			
Oil and gas assets			
Right to use assets			
Intangible assets		742,913,628.01	767,164,480.73
Development expenditures		290,105,270.15	274,062,234.32
Goodwill			
Long-term prepaid expenses		22,045,558.60	29,463,079.46
Deferred tax assets		488,401,865.78	490,142,216.40
Other non-current assets			
Including: special reserve materials			
Total non-current assets		<u>9,004,851,316.13</u>	<u>9,229,287,223.12</u>
Total assets		<u>54,810,493,209.98</u>	<u>56,541,982,676.06</u>

CONSOLIDATION BALANCE SHEET (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Items	Notes	June 30, 2019	December 31, 2018
Current liabilities:			
Short-term borrowing		3,503,617,069.24	1,572,908,534.19
Borrowings from central bank			
Unloading funds			300,000,000.00
Transactional financial liabilities			
Derivative financial liabilities			
Notes payables		5,512,430,377.89	5,836,028,015.25
Account payables	12	12,844,301,477.76	13,215,819,754.05
Advance receipts			
Financial assets sold for repurchase			
absorption of deposits and interbank deposit		766,741,304.80	1,701,564,614.29
Agent trading securities			
Agent underwriting securities			
Employee benefits payable		255,074,802.71	296,206,737.79
Including: Accrued payroll		20,696,893.51	47,549,236.28
Welfare benefits payable		6,627,172.59	20,641.00
Including: Staff and workers' bonus and welfare			
Taxes payables		70,538,753.50	374,043,503.79
Including: Taxes payable		68,670,523.98	359,389,161.53
Other payables		589,947,332.49	282,211,997.43
Cession insurance and premiums payable			
Coping with reinsurance			
Contractual liabilities		13,086,883,226.98	14,596,720,387.12
Holding for sale liabilities			
Non-current liabilities maturing within one year		200,000,000.00	200,000,000.00
Other current liabilities		1,338,548.80	188,548.80
TOTAL CURRENT LIABILITIES		36,830,872,894.17	38,375,692,092.71

CONSOLIDATION BALANCE SHEET (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Items	Notes	June 30, 2019	December 31, 2018
Non-current liabilities:			
Insurance contract reserve			
Long-term borrowings		300,000,000.00	300,000,000.00
Bonds payable			
including: preferred stocks			
perpetual debts			
Lease liabilities			
Long-term payables		480,043,694.29	484,843,694.29
Long-term employee compensation payable		142,308,359.65	142,308,359.65
Estimated liabilities		623,286,396.66	785,172,986.49
Deferred income		152,081,231.33	144,934,944.49
Deferred income tax liabilities			
Other non-current liabilities			
Including: special reserve fund			
TOTAL NON-CURRENT LIABILITIES		1,697,719,681.93	1,857,259,984.92
TOTAL LIABILITIES		38,528,592,576.10	40,232,952,077.63
Owners' (Shareholders') equity:			
Paid-in capital (or share capital)		1,706,523,000.00	1,706,523,000.00
National capital		1,030,952,000.00	1,030,952,000.00
Including: State-owned legal person's capital		1,030,952,000.00	1,030,952,000.00
Collective capital			
Non-governmental capital			
Including: individual capital			
Foreign capital		675,571,000.00	675,571,000.00
Less: Capital redemption			

CONSOLIDATION BALANCE SHEET (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Items	Notes	June 30, 2019	December 31, 2018
Net balance of paid-in capital (or share capital)		1,706,523,000.00	1,706,523,000.00
Other equity instruments			
Including: Preferred stock			
Perpetual debts			
Capital reserve		3,715,737,494.12	3,715,737,494.12
Less: Treasury stock			
Other comprehensive income		-21,479,889.25	66,045,215.97
Including: Converted difference in foreign currency statements		2,948,083.99	2,716,262.19
Special reserve		38,994,125.76	30,812,983.78
Surplus reserve		809,136,649.47	809,136,649.47
Including: statutory reserves		809,136,649.47	809,136,649.47
Arbitrary provident fund			
reserve funds			
enterprise expansion funds			
profits capitalized on return of investments			
Provision for normal risks			
Undistributed profits		8,729,487,303.18	8,698,026,738.58
Total equity attributable to owners of the parent company		14,978,398,683.28	15,026,282,081.92
Minority equity		<u>1,303,501,950.60</u>	<u>1,282,748,516.51</u>
TOTAL OWNERS' (SHAREHOLDERS') EQUITY		<u>16,281,900,633.88</u>	<u>16,309,030,598.43</u>
TOTAL LIABILITIES AND OWNERS' (SHAREHOLDERS') EQUITY		<u>54,810,493,209.98</u>	<u>56,541,982,676.06</u>

Legal representative: Chief Accounting Officer: Accounting agency head:

CONSOLIDATED INCOME STATEMENT

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2019	January to June 2018
I. Total operating income		10,136,137,430.56	12,978,747,387.39
Including: Operating income	3	9,962,005,905.26	12,731,936,330.66
Interest income		174,131,525.30	246,772,517.95
Earned premiums			
Income from handling charges and commissions			38,538.78
II. Total operating cost		9,714,351,726.80	12,521,974,833.86
Including: Operating cost	3	8,596,803,298.79	11,216,343,737.26
Interest expenses		8,052,819.15	6,230,313.71
Handling charges and commissions expenses		25,258.79	10,337.62
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		47,774,726.84	101,237,278.86
Selling expenses		228,090,017.13	237,364,912.58
General and administrative expenses	4	536,286,170.38	663,730,018.27
Including: Party construction work funds		11,906,829.19	20,746.83
Research and development expenses		266,208,113.27	231,835,495.99
Financial expenses		31,111,322.45	65,222,739.57
Including: interest expense		44,948,122.39	86,412,707.43
Interest income		25,810,877.44	29,402,604.12
Gain or loss on foreign exchange transactions (“-” for gains)		-1,967,635.29	3,959,921.87
Plus: Other income		28,832,255.12	4,061,461.07
Investment income (“-” for losses)		16,472,527.40	42,539,960.96
Including: Income from investment in associates and joint ventures		8,714,624.64	429,708.77
Derecognition gains on financial assets measured at amortised cost			

CONSOLIDATED INCOME STATEMENT (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2019	January to June 2018
Gains from foreign exchange (“-” for losses)		-142.79	-1,003.45
Net exposure hedging returns (“-” for losses)			
Gains from the changes in fair value (“-” for losses)			
Credit impairment loss (“-” for losses)	6	-345,313,779.01	-320,252,270.86
Asset impairment loss (“-” for losses)	5	2,444,416.73	
Asset disposal income (“-” for losses)		611,030.22	317,323.85
III. Operating profits (“-” for losses)		124,832,011.43	183,438,025.10
Plus: Non-operating income		13,515,363.35	22,413,873.87
Including: Gains from disposal of non-current assets			2,088,940.04
Gains from exchange of non-monetary assets			
Government grant income		1,160,400.00	4,534,605.91
Gains from debt restructuring			
Less: Non-operating expenses		1,219,733.35	61,084,827.05
Including: Losses from disposal of non-current assets			1,336,090.76
Losses from exchange of non-monetary assets			
Losses from debt restructuring			
IV. Total profits (“-” for total losses)		137,127,641.43	144,767,071.92
Less: Income tax expenses	10	83,053,485.39	78,533,914.49
V. Net profit (“-” for net losses)		54,074,156.04	66,233,157.43
(1) Classification according to the continuity of operation			
1. Net profit for continuing operations (“-” for losses)		54,074,156.04	66,233,157.43
2. Termination of operating net profit (“-” for losses)			
(2) Classification by ownership			
1. Net profit attributable to shareholders of the parent company		31,460,564.60	30,768,718.70
2. Minority shareholder gains and losses		22,613,591.44	35,464,438.73

CONSOLIDATED INCOME STATEMENT (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2019	January to June 2018
VI. Other comprehensive income, net of tax		-87,520,686.75	839,834.09
Net after-tax of other comprehensive income attributable to the parent company owner		-87,525,105.22	839,834.09
(1) Other comprehensive income that cannot be reclassified into profit or loss		-87,786,258.55	
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		-87,786,258.55	
4. Changes in the fair value of the company's own credit risk			
(2) Other comprehensive income that will be reclassified into profit or loss		261,153.33	839,834.09
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		29,331.53	
3. The amount of financial assets reclassified into other comprehensive income			
4. Other debt investment credit impairment provisions			
5. Cash flow hedge reserve			
6. Foreign currency financial statement translation difference		231,821.80	839,834.09
7. Others			
Net after-tax of other comprehensive income attributable to minority shareholders		4,418.47	
VII. Total comprehensive income		-33,446,530.71	67,072,991.52
Total comprehensive income attributable to owners of the parent company		-56,064,540.62	31,608,552.79
Total comprehensive income attributable to minority shareholders		22,618,009.91	35,464,438.73
VIII. Earnings per share:			
Basic earnings per share (<i>yuan per share</i>)	9	0.02	0.02
Diluted earnings per share (<i>yuan per share</i>)	9	0.02	0.02

Legal representative: Chief Accounting Officer: Accounting agency head:

CONSOLIDATED STATEMENT OF CASH FLOWS

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2019	January to June 2018
I. CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from sales of goods and rendering of services		8,205,936,623.42	9,886,201,809.98
Net increase in deposits from customers and due from banks and other financial institutions		-909,514,433.79	760,140,116.11
Net increase in borrowings from the central bank			
Net increase in loans from other financial institutions		-100,000,000.00	100,000,000.00
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		173,201,615.07	246,110,704.83
Net increase in loans from banks and other financial institutions			
Net capital increase in repurchase business			
Refunds of taxes and surcharges		203,418,224.59	59,445,903.94
Cash received from other operating activities		278,758,896.08	279,014,827.25
Sub-total of cash inflows from operating activities		7,851,800,925.37	11,330,913,362.11
Cash paid for goods purchased and services received		9,505,598,880.84	9,840,832,278.46
Net increase in customers' loans and advances		49,259,273.24	10,284,237.89
Net increase in deposits with central bank and with banks and other financial institutions		-169,465,716.61	-199,541,263.36
Cash paid for original insurance contract claims			
Cash paid for interests, handling charges and commissions		7,062,341.93	55,502,317.56
Cash paid for policy dividends			
Cash payments to and on behalf of employees		1,091,798,279.88	1,266,060,927.14
Cash paid for taxes and surcharges		625,556,300.86	835,815,084.80
Cash paid for other operating activities		805,879,399.88	847,648,531.15
Sub-total of cash outflows from operating activities		11,915,688,760.02	12,656,602,113.64
NET CASH FLOWS FROM OPERATING ACTIVITIES		-4,063,887,834.65	-1,325,688,751.53

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2019	January to June 2018
II. CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash received from disposal of investments		91,347,423.10	1,017,000,000.00
Cash received from returns on investments		30,194,634.51	34,579,376.70
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		890,167.92	2,840,930.08
Net cash received from disposal of subsidiaries and other business units			
Cash received from other investing activities		8,632,945.91	
Subtotal of cash inflows from investment activities		131,065,171.44	1,054,420,306.78
Net cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets		243,639,556.97	195,609,400.55
Cash paid for investments		33,200,000.00	1,148,000,000.00
Net increase in pledge loans			
Net cash paid to acquire subsidiaries and other business units			
Cash paid for other investing activities			32,621,665.76
Sub-total of cash outflows from investing activities		276,839,556.97	1,376,231,066.31
NET CASH FLOWS FROM INVESTING ACTIVITIES		-145,774,385.53	-321,810,759.53

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	January to June 2019	January to June 2018
III. CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received from absorption of investment			
Including: Cash received by subsidiaries from			
investments by minority shareholders			
Cash received from borrowings		2,342,668,798.62	769,550,061.55
Cash received from bonds issue			
Cash received from other financing activities		<u>3,697,191.03</u>	<u>3,336.38</u>
Sub-total of cash inflows from financing activities		<u>2,346,365,989.65</u>	<u>769,553,397.93</u>
Cash paid for debts repayments		414,850,263.57	4,972,711,610.28
Cash paid for distribution of dividends and profits			
or payment of interests		57,557,115.23	269,162,279.19
Including: Dividends and profits paid to minority			
shareholders by subsidiaries			
Cash paid for other financing activities		<u>70,002.71</u>	<u>158,443,661.88</u>
Sub-total of cash outflows from financing activities		<u>472,477,381.51</u>	<u>5,400,317,551.35</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>1,873,888,608.14</u>	<u>-4,630,764,153.42</u>
IV. EFFECT OF FLUCTUATION IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS			
		6,550,740.75	-12,895,939.19
V. NET INCREASE IN CASH AND CASH EQUIVALENTS			
		-2,329,222,871.29	-6,291,159,603.67
Plus: Beginning balance of cash and cash equivalents		11,705,681,448.94	15,206,290,892.00
VI. ENDING BALANCE OF CASH AND CASH EQUIVALENTS			
		9,376,458,577.65	8,915,131,288.33

Legal representative: *Chief Accounting Officer:* *Accounting agency head:*

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

January to June 2019															
Equity attributable to owners of the parent company															
Item	Other equity instrument				Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserves	△ General risk reserves	Undistributed profits	Others	Subtotal	Minority equity	Total owners' equity
	Paid-in capital (or share capital)	Preferred stocks	Perpetual securities	Others											
I. Balance at the end of the last year	1,706,523,000.00			3,715,737,494.12			66,045,215.97	30,812,983.78	809,136,649.47		8,698,026,738.58		15,026,282,081.92	1,282,748,516.51	16,309,030,598.43
Plus: Adjustments for changes in accounting policies															
Correction of accounting errors in prior periods															
Business combination under the same control															
Others															
II. Balance at the beginning of the year	1,706,523,000.00			3,715,737,494.12			66,045,215.97	30,812,983.78	809,136,649.47		8,698,026,738.58		15,026,282,081.92	1,282,748,516.51	16,309,030,598.43
III. Increases/decreases in the current period ("+" for decreases)															
(1) Total comprehensive income							-87,525,105.22	8,181,141.98			31,460,564.60		-47,883,398.64	20,753,434.09	-27,129,964.55
(2) Capital contributed or reduced by owners							-87,525,105.22				31,460,564.60		-56,064,540.62	22,618,009.91	-33,446,530.71
1. Common shares contributed by owners															
2. Capital contributed by the holders of other equity instruments															
3. Amounts of share-based payments recognized in owners' equity															
4. Others															
(3) Special reserves								8,181,141.98					8,181,141.98	1,260,996.01	9,442,137.99
1. Extraction of special reserves								11,755,889.67					11,755,889.67	1,840,070.04	13,595,959.71
2. Use of special reserves								-3,574,747.69					-3,574,747.69	-579,074.03	-4,153,821.72
(4) Profit distribution														-3,125,571.83	-3,125,571.83
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)														-3,125,571.83	-3,125,571.83
4. Others															

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

January to June 2019															
Equity attributable to owners of the parent company															
Item	Other equity instrument				Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserves	△ General risk reserves	Undistributed profits	Others	Subtotal	Minority equity	Total owners' equity
	Paid-in capital (or share capital)	Preferred stocks	Perpetual capital securities	Others											
(5) Internal carry-forward of owners'															
1. Conversion of capital reserves into paid-in capital (or share capital)															
2. Conversion of surplus reserves into paid-in capital (or share capital)															
3. Surplus reserves offsetting losses															
4. Transfer remeasurement changes in net liabilities or net assets of defined benefit plans															
5. Other comprehensive income carry-over retained earnings															
6. Others															
(6) others															
IV. Balance at the end of the current period															
	1,706,523,000.00				3,715,737,494.12		-21,479,889.25	38,994,125.76	809,136,649.47		8,729,487,303.18		14,978,398,683.28	1,303,501,950.60	16,281,900,633.88

Legal representative:

Chief Accounting Officer:

Accounting agency head:

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

January to June 2018																
Equity attributable to owners of the parent company																
Item	Other equity instrument				Capital reserves	Less: Treasury stock	Other			Surplus reserves	General risk reserves	Undistributed profits	Others	Subtotal	Minority equity	Total owners' equity
	Paid-in capital (or share capital)	Preferred stocks	Perpetual capital securities	Others			comprehensive income	Special reserves								
I. Balance at the end of the last year	1,706,523,000.00			3,690,197,230.17			18,514,209.22	19,377,426.96	786,529,945.86			8,649,609,089.09		14,870,750,901.30	1,271,400,777.32	16,142,151,678.62
Plus: Adjustments for changes in accounting policies																
Correction of accounting errors in prior periods																
Business combination under the same control																
Others																
II. Balance at the beginning of the year	1,706,523,000.00			3,690,197,230.17			18,514,209.22	19,377,426.96	786,529,945.86			8,649,609,089.09		14,870,750,901.30	1,271,400,777.32	16,142,151,678.62
III. Increases/decreases in the current period ("+" for decreases)																
(1) Total comprehensive income																
(2) Capital contributed or reduced by owners																
1. Common shares contributed by owners																
2. Capital contributed by the holders of other equity instruments																
3. Amounts of share-based payments recognized in owners' equity																
4. Others																
(3) Special reserves																
1. Extraction of special reserves																
2. Use of special reserves																
(4) Profit distribution																
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)																
4. Others																

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (CONTINUED)

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

January to June 2018														
Equity attributable to owners of the parent company														
Item	Other equity instrument				Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Undistributed profits	Others	Subtotal	Minority equity	Total owners' equity
	Paid-in capital (or share capital)	Preferred stocks	Perpetual capital securities	Others										
(5) Internal carry-forward of owners'														
1. Conversion of capital reserves into paid-in capital (or share capital)														
2. Conversion of surplus reserves into paid-in capital (or share capital)														
3. Surplus reserves offsetting losses														
4. Transfer remeasurement changes in net liabilities or net assets of defined benefit plans														
5. Other comprehensive income carry-over retained earnings														
6. Others														
(6) others														
IV. Balance at the end of the current period														
	1,706,523,000.00			3,704,487,494.12		-190,451.03	26,115,497.27	786,529,945.86		8,680,839,288.58		14,904,304,774.80	1,285,482,931.17	16,189,787,705.97

Legal representative:

Chief Accounting Officer:

Accounting agency head:

1. INFORMATION ABOUT THE COMPANY

Harbin Electric Company Limited (the “**Company**”) was initially and was formed through the restructuring of Harbin Electric Corporation (“**HE Corporation**”) and its three affiliates: Harbin Electrical Machinery Works, Harbin Boiler Works and Harbin Turbine Works. The Company was established in Harbin on 6th October, 1994. The reconstruction and listing of its shares in Hong Kong with limited liabilities has been approved by the State Commission for Restructuring the Economic Systems on 5th November, 1994.

Parent and ultimate controller of the Company: Harbin Electric Corporation

The Company is engaged in manufacturing of power generator and generator units, its principal businesses are production and sales of power generator and turn-key construction of power station projects.

2. MAIN ACCOUNTING POLICIES

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

The accounting policies and calculation methods adopted in the consolidated financial statements as at 30 June 2019 are in line with the compilation of the annual financial statements of the Group for the year ended 31st December, 2018.

3. INCOMES AND DIVISION’S DOCUMENTS

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

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

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

2) Financial information of divisions

(1) Assets, liabilities and revenue of divisions

Items	Thermal power host devices	Water and electricity host devices	Plant engineering services	Power plant auxiliary and supporting products	nuclear power products division	Ac/dc motors and others	Total
30 June 2019							
Reportable assets of divisions	36,673,477,800.38	5,089,554,616.46	6,883,793,059.68	2,104,087,825.48	6,421,305,151.41	6,256,281,097.51	63,428,499,550.92
Reportable liabilities of divisions	<u>29,824,024,507.66</u>	<u>3,021,806,464.24</u>	<u>6,321,924,233.19</u>	<u>1,422,502,593.31</u>	<u>4,650,313,666.14</u>	<u>5,149,461,254.09</u>	<u>50,390,032,718.63</u>
January to June 2019							
Revenue of divisions	6,274,023,733.78	420,755,692.42	2,834,253,296.09	473,810,736.39	783,958,912.64	1,031,305,330.63	11,818,107,701.95
External customer	4,425,471,557.44	420,755,692.42	2,834,253,296.09	473,810,736.39	783,958,912.64	1,023,755,710.28	9,962,005,905.26
Internal customer	1,848,552,176.34					7,549,620.35	1,856,101,796.69
Reportable revenue of divisions	6,274,023,733.78	420,755,692.42	2,834,253,296.09	473,810,736.39	783,958,912.64	1,031,305,330.63	11,818,107,701.95
Reportable revenue of gross profit	<u>857,638,488.76</u>	<u>67,918,723.94</u>	<u>59,276,183.23</u>	<u>41,725,444.97</u>	<u>117,179,041.12</u>	<u>261,985,223.50</u>	<u>1,405,723,105.52</u>
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
31 December 2018							
Reportable assets of divisions	38,060,046,043.09	4,981,546,381.13	5,900,713,218.18	2,224,798,407.05	5,918,287,179.76	6,783,336,804.67	63,868,728,033.88
Reportable liabilities of divisions	<u>30,909,471,437.62</u>	<u>2,886,382,078.26</u>	<u>5,424,335,500.65</u>	<u>1,612,693,371.77</u>	<u>4,168,102,585.60</u>	<u>5,536,702,477.71</u>	<u>50,537,687,451.61</u>
January to June 2018							
Revenue of divisions							
External customer	6,246,772,675.10	771,881,980.30	3,812,798,546.75	265,191,255.73	574,953,516.03	1,060,338,356.75	12,731,936,330.66
Internal customer	1,297,613,442.97					25,451,274.79	1,323,064,717.76
Reportable revenue of divisions	7,544,386,118.07	771,881,980.30	3,812,798,546.75	265,191,255.73	574,953,516.03	1,085,789,631.54	14,055,001,048.42
Reportable revenue of gross profit	<u>975,575,428.03</u>	<u>79,900,909.81</u>	<u>18,213,361.36</u>	<u>49,683,585.68</u>	<u>102,838,375.32</u>	<u>329,171,139.67</u>	<u>1,555,382,799.87</u>

(2) Assets, revenue and liabilities of divisions

Items	30 June, 2019	31 December, 2018
Assets		
Reportable assets of divisions	63,428,499,550.92	63,868,728,033.88
Offset division's accounts from related parties	-18,806,893,797.14	-19,044,229,265.34
Reportable net assets of divisions	44,621,605,753.78	44,824,498,768.54
Deferred tax assets	488,401,865.78	490,142,216.40
Financial assets held for trading		
Deposit in bank	7,679,484,804.06	8,730,639,860.30
Deposit in central bank	516,679,842.11	635,145,558.72
Cash and cash equivalents	51,205,924.62	50,694,420.76
Unallocated assets of head office and the company	1,453,115,019.63	1,810,861,851.34
Total assets	54,810,493,209.98	56,541,982,676.06
Liabilities		
Reportable liabilities of divisions	50,390,032,718.63	50,537,687,451.61
Offset division's accounts from related parties	-12,702,263,204.77	-12,683,916,496.00
Reportable net liabilities of divisions	37,687,769,513.86	37,853,770,955.61
Tax payable	70,538,753.50	374,043,503.79
Deferred income tax liabilities		
Unallocated liabilities of head office and the company	770,284,308.74	2,005,137,618.23
Total liabilities	38,528,592,576.10	40,232,952,077.63

Items	January to June in 2019	January to June in 2018
Revenue		
External revenue	9,962,005,905.26	12,731,936,330.66
Internal revenue	1,856,101,796.69	1,323,064,717.76
Reportable revenue of divisions	11,818,107,701.95	14,055,001,048.42
Reportable gross profit of divisions	1,405,723,105.52	1,555,382,799.87
Offset losses between divisions	40,520,499.05	39,790,206.47
External customers' reportable gross profit	1,365,202,606.47	1,515,592,593.40
Long-term equity investment account by equity method	8,714,624.64	429,708.77
Interests income	199,942,402.74	276,175,122.07
Chinese government grants	29,992,655.12	8,596,066.98
Profit and loss of trading financial assets		
Interest expenses	53,000,941.54	92,643,021.14
Impairment losses for long-term assets such as fixed assets and intangible assets		282,731.43
Undistributed other revenue and net revenue	22,691,531.62	30,941,775.20
Undistributed expenses of head office and the company	1,436,415,237.62	1,594,042,441.94
Total profit	137,127,641.43	144,767,071.92

4. ADMINISTRATIVE EXPENSES

For the six months ended 30 June 2019, the amount of management expenses was RMB536,286,170.38 (for the six months ended June 30, 2018, the amount of management expenses was RMB663,730,018.27). Mainly for labor costs, depreciation and amortization expenses, etc.

5. IMPAIRMENT ON ASSETS

Items	January to June in 2019	January to June in 2018
Loss on inventory valuation	2,444,416.73	
Total	2,444,416.73	

6. IMPAIRMENT ON CREDITS

Items	January to June in 2019	January to June in 2018
Bad debt loss	-200,230,110.10	-321,724,211.70
Contract asset impairment loss	-144,300,764.61	1,736,378.11
Loan impairment loss	-782,904.30	-264,437.27
Total	<u>-345,313,779.01</u>	<u>-320,252,270.86</u>

Note: In the current period, the provision for impairment of accounts receivable and other receivables is RMB200,230,110.10. This amount of impairment will be directly provided if the amount is less likely to be recovered by the Group. The impairment preparation will be directly used to write off the accounts receivable and other receivables.

7. PROFIT BEFORE TAX AND AMORTIZATION DEPRECIATION

Items	January to June in 2019
Net profit	54,074,156.04
Income tax expenses	83,053,485.39
Withdrawing depreciation of fixed assets	333,392,188.74
Withdrawing amortization intangible assets	28,226,729.37
Withdrawing amortization of long-term deferred expenses	7,349,716.57
Interests and investment income	42,283,404.84
Interests income of finance company	174,131,525.30
Interests expenses	44,948,122.39
Interests expenses of finance company	8,052,819.15
Profit before tax and amortization depreciation	<u>342,682,287.51</u>

8. DIVIDEND

Items	January to June in 2019	January to June in 2018
Dividend of per share RMB0.000 at the 2018 closing balance		
Dividend of per share RMB0.015 at the 2017 closing balance		25,597,845.00
Total	<u></u>	<u>25,597,845.00</u>

The Directors do not recommend any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB0.00).

9. EARNINGS PER SHARE

	January to June in 2019	January to June in 2018
Shareholders' net profit attributable to parent company	31,460,564.60	30,768,718.70
During the period of the weighted average number of shares of common shares outstanding	1,706,523,000.00	1,706,523,000.00
Earnings per share	<u>0.02</u>	<u>0.02</u>

Note: There were no dilutive ordinary shares outstanding for the six months ended June 30, 2019 and 2018, and diluted earnings per share were the same as basic earnings per share.

10. INCOME TAX

1) Enterprise income tax

Under the EIT Law, high and new technology enterprises that require key state support are subject to the applicable enterprise income tax rate with a reduction of 15%.

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

In addition to several subsidiaries are charged the corporate income tax rate of 15% (for the six months ended 30th June, 2018), other subsidiaries in China shall be 25% (for the six months ended 30th June, 2018) to pay Chinese corporate income tax.

2) Hong Kong profits tax

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

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

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

11. ACCOUNTS RECEIVABLE

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

(1) Accounts receivable are classified and disclosed according to the method of drawing bad debts

Types	30 June, 2019					31 December, 2018				
	Remaining carrying amount		Provision for bad debt		Carrying Value	Remaining carrying amount		Provision for bad debt		Carrying Value
	Amount	Ratio (%)	Amount	Ratio (%)		Amount	Ratio (%)	Amount	Ratio (%)	
Provision for bad debts on a single basis	690,022,102.05	5.89	522,908,683.72	75.78	167,113,418.33	737,339,835.29	6.56	608,957,674.73	82.59	128,382,160.56
Including: Accounts receivable which are individually significant and provided for bad debt separately	557,384,786.63	4.76	436,419,149.25	78.30	120,965,637.38	553,412,455.91	4.92	486,347,205.91	87.88	67,065,250.00
Accounts receivable which are individually not significant but provided for bad debt separately	132,637,315.42	1.13	86,489,534.47	65.21	46,147,780.95	183,927,379.38	1.64	122,610,468.82	66.66	61,316,910.56
Provision for bad debts by portfolio	11,013,166,528.56	94.11	4,253,751,293.84	38.62	6,759,415,234.72	10,500,832,091.75	93.44	3,954,467,935.12	37.66	6,546,364,156.63
Including: Accounts receivable provided for bad debt by credit risk characteristics	11,013,166,528.56	94.11	4,253,751,293.84	38.62	6,759,415,234.72	10,500,832,091.75	93.44	3,954,467,935.12	37.66	6,546,364,156.63
Total	11,703,188,630.61	/	4,776,659,977.56	/	6,926,528,653.05	11,238,171,927.04	/	4,563,425,609.85	/	6,674,746,317.19

1) Provision for bad debts on a single basis

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

Account receivable (by units)	Account receivables	30 June, 2019		
		Provision for bad debt	Provision rate (%)	Provision reason
State Nuclear Power Engineering Corp., Ltd. and other units	557,384,786.63	436,419,149.25	78.30	/
Total	557,384,786.63	436,419,149.25	78.30	/

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

Account receivables (by units)	30 June, 2019			
	Account receivables	Provision for bad debt	Provision rate (%)	Provision reason
China Zhongyuan Foreign Engineering Co., Ltd. and other units	132,637,315.42	86,489,534.47	65.21	/
Total	132,637,315.42	86,489,534.47	65.21	/

2) *Provision for bad debts by portfolio*

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

Age	30 June, 2019			31 December, 2018		
	Account receivables	Provision for bad debt	Provision rate (%)	Account receivables	Provision for bad debt	Provision rate (%)
Within 1 year	4,433,541,661.11	219,050,229.70	4.94	4,164,547,707.60	197,754,132.56	4.75
1-2 years	2,089,009,465.89	510,129,344.01	24.42	2,091,223,697.23	512,422,687.69	24.50
2-3 years	1,169,666,782.74	566,342,741.79	48.42	1,011,291,538.11	484,229,103.95	47.88
3-4 years	760,437,346.03	542,446,557.15	71.33	802,848,457.94	525,640,567.92	65.47
4-5 years	584,636,750.37	479,892,337.26	82.08	593,043,790.37	423,225,754.91	71.37
Over 5 years	1,975,874,522.42	1,935,890,083.93	97.98	1,837,876,900.50	1,811,195,688.09	98.55
Total	11,013,166,528.56	4,253,751,293.84	/	10,500,832,091.75	3,954,467,935.12	/

12. ACCOUNTS PAYABLE

Items	30 June, 2019	31 December, 2018
With 1 year	9,696,733,389.49	10,003,805,732.84
1-2 years	1,428,115,685.70	1,811,999,790.23
2-3 years	833,895,321.59	597,497,973.67
Over 3 years	885,557,080.98	802,516,257.31
Total	<u>12,844,301,477.76</u>	<u>13,215,819,754.05</u>

All amounts in this report are denominated in Renminbi.

INDUSTRY DEVELOPMENT AND BUSINESS REVIEW

In the first half of 2019, national clean and low-carbon energy transformation further proceeded, and the proportion of power generation from non-fossil energy continued to increase. As of the end of June 2019, national aggregate additional installed capacity of power generating units amounted to 40,740 MW, representing a year-on-year decrease of 11,940 MW, including 1,820 MW for hydropower, 16,930 MW for thermal power, 9,090 MW for wind power, 11,400 MW for photovoltaic power, and 1,250 MW for nuclear power. Installed capacity of non-fossil energy power generating units accounted for 58.4% of the increment. Among power generating units of 6 MW and above, installed capacity of non-fossil energy power generating units accounted for 37.2%, representing an increase of 1.2 percentage points as compared with the same period last year.

In the first half of 2019, the Group, by focusing on its development strategy and driven by reform and innovation, made every effort to promote high quality development. With the joint efforts of all staff members, we made positive progress in various tasks, and the economy operated steadily as expected by and large.

OPERATING RESULTS

For the six months ended 30 June 2019, the Group recorded an operating revenue of RMB9,962.01 million, representing a decrease of 21.76% as compared with the same period last year. The Group recorded a net profit attributable to owners of the parent company of RMB31.46 million, representing an increase of 2.24% as compared with the same period last year. Earnings per share were RMB0.02, remaining stable 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 RMB14,978.40 million, representing a decrease of RMB47.88 million over the beginning of the year; and net assets per share were RMB8.78, representing a decrease of RMB0.03 over the beginning of the period.

NEW CONTRACTS

For the six months ended 30 June 2019, the value of new contracts secured by the Group amounted to RMB6.133 billion, representing a decrease of 29.10% from the same period last year, and to which the export contracts contributed RMB0.340 billion, representing an increase of 39.92% 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 RMB2.295 billion, accounting for 37.42% of the new contracts; the new contract amount for hydropower amounted to RMB0.913 billion, accounting for 14.89%; the new contract amount for nuclear power amounted to RMB0.009 billion, accounting for 0.15%; the new contract amount for gas power amounted to RMB0.714 billion, accounting for 11.64%; the new contract amount for power station service amounted to RMB0.898 billion, accounting for 14.64%; and the new contract amount for other products amounted to RMB1.304 billion, accounting for 21.26%.

PRODUCT OUTPUT

The capacity of the Group's power equipment produced during the six months ended 30 June 2019 was 5,940 MW, representing a decrease of 21.72% as compared with the same period last year, and among which water turbine generators generated a total of 230 MW, representing a decrease of 77.86% as compared with the same period last year; steam turbine generators generated a total of 5,710 MW, representing a decrease of 14.14% as compared with the same period last year; utility boilers for power stations generated a total of 6,920 MW, representing an increase of 7.45% as compared with the same period last year; and steam turbines for power stations generated a total of 4,830 MW, representing an increase of 53.24% as compared with the same period last year.

OPERATING REVENUE AND COST

For the six months ended 30 June 2019, the Group recorded an operating revenue of RMB9,962.01 million, representing a decrease of 21.76% as compared with the same period last year. In particular, operating revenue of main thermal power equipment was RMB4,425.47 million, representing a decrease of 29.16% as compared with the same period last year. Operating revenue of nuclear power equipment was RMB783.96 million, representing an increase of 36.35% as compared with the same period last year. Operating revenue of main hydropower equipment was RMB420.76 million, representing a decrease of 45.49% as compared with the same period last year. Operating revenue of engineering services for power stations was RMB2,834.25 million, representing a decrease of 25.66% as compared with the same period last year. Operating revenue of ancillary equipment and supporting products for power stations was RMB473.81 million, representing an increase of 78.67% as compared with the same period last year. Operating revenue of AC/DC motors and other products and services was RMB1,023.76 million, representing a decrease of 3.45% as compared with the same period last year. During the period, the decrease in the operating revenue of the Group was mainly attributable to a decrease in the production volume of power generation equipment and less revenue recognition from the newly contracted projects of power station engineering service segment in the early stage of construction.

During the period, the Group recorded an export turnover of RMB2,795.08 million, accounting for 28.06% of the operating revenue. The exports were mainly to Asia, accounting for 27.41% of the operating revenue and 97.68% of the export turnover.

During the period, the operating cost of the Group was RMB8,596.80 million, representing a decrease of 23.35% as compared with the same period last year, which was mainly attributable to the decrease in the scale of operating revenue.

GROSS PROFIT AND GROSS PROFIT MARGIN

For the six months ended 30 June 2019, the Group realized a gross profit from operating business of RMB1,365.21 million, representing a decrease of 9.92% as compared with the same period last year. The gross profit margin was 13.70%, representing an increase of 1.8 percentage points as compared with the same period last year.

In particular, the gross profit from main thermal power equipment was RMB824.58 million and the gross profit margin was 18.63%, representing an increase of 3.45 percentage points as compared with the same period last year; the gross profit from nuclear power equipment was RMB117.18 million and the gross profit margin was 14.95%, representing a decrease of 2.94 percentage points as compared with the same period last year; the gross profit from main hydropower equipment was RMB67.92 million and the gross profit margin was 16.14%, representing an increase of 5.79 percentage points as compared with the same period last year; the gross profit from engineering services for power stations was RMB59.27 million and the gross profit margin was 2.09%, representing an increase of 1.61 percentage points as compared with the same period last year; the gross profit from ancillary equipment and supporting products for power stations was RMB41.72 million and the gross profit margin was 8.81%, representing a decrease of 9.93 percentage points as compared with the same period last year; and the gross profit from AC/DC motors and other products and services was RMB254.53 million and the gross profit margin was 24.86%, representing a decrease of 4.97 percentage points as compared with the same period last year.

The Group's gross profit margin increased, due to (1) changes in the product sales structure of the thermal power segment, (2) the enhanced profitability of individual products in the hydropower segments, and (3) the increase in the gross profit margin of power station engineering service segment, affected by the fluctuations in exchange rates.

EXPENSES FOR THE PERIOD

For the six months ended 30 June 2019, the Group incurred expenses for the current period amounted to RMB1,061.70 million, representing a decrease of RMB136.45 million or 11.39% as compared with the same period last year. In particular, distribution expenses amounted to RMB228.09 million, representing a decrease of RMB9.27 million or 3.91% as compared with the same period last year; administrative expenses incurred amounted to RMB536.29 million, representing a decrease of RMB127.44 million or 19.20% as compared with the same period last year; R&D expenses incurred amounted to RMB266.21 million, representing an increase of RMB34.37 million or 14.82% as compared with the same period last year; financial costs incurred amounted to RMB31.11 million, representing a decrease of RMB34.11 million or 52.30% as compared with the same period last year.

The decrease in expenses for the period was mainly attributable to significant control effect in the non-production expense and a decrease in interest expense for the current period.

ASSETS AND LIABILITIES

As at 30 June 2019, the total assets of the Group amounted to RMB54,810.49 million, representing a decrease of RMB1,731.49 million or 3.06% over the beginning of the period, and among which the current assets were RMB45,805.64 million, accounting for 83.57% of the total assets, and the non-current assets were RMB9,004.85 million, accounting for 16.43% of the total assets. The total liabilities of the Group amounted to RMB38,528.59 million, representing a decrease of RMB1,704.36 million or 4.24% over the beginning of the period, and among which the current liabilities were RMB36,830.87 million, accounting for 95.59% of the total liabilities, and the non-current liabilities were RMB1,697.72 million, accounting for 4.41% of the total liabilities. As at 30 June 2019, the gearing ratio of the Group was 70.29% as compared to 71.16% at the beginning of the period.

CAPITAL AND GEARING RATIO

As at 30 June 2019, the gearing ratio of the Group (calculated as non-current liabilities over total shareholders' equity) was 0.11:1 as compared to 0.12:1 at the beginning of the period.

MONETARY CAPITAL AND CASH FLOWS

As at 30 June 2019, the monetary capital of the Group was RMB10,252.54 million, representing a decrease of RMB2,290.71 million or 18.26% as compared to the beginning of the period, primarily attributable to the decrease in contract liabilities. During the period, the negative net cash flow generated from operating activities of the Group was RMB4,063.89 million, while investing activities generated negative net cash flow of RMB145.77 million and financing activities generated net cash flow of RMB1,873.89 million.

FUNDING AND BORROWINGS

The Group currently has three funding sources for operation and development, namely shareholder's funds, trade receivables from customers and bank borrowings. The Group arranges borrowings for each specific project. Except for some special situations, loans will be raised individually by the Group's subsidiaries. However, prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 30 June 2019, the Group's total borrowings amounted to RMB4,003.62 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 RMB3,703.62 million, representing an increase of RMB1,930.71 million over the beginning of the period; the amount due after one year was RMB300.00 million, representing a decrease of RMB200.00 million over the beginning of the period, which was attributable to the reclassification of long-term borrowings to non-current liabilities due within one year. As of 30 June 2019, the Group's contracted liabilities were RMB13,086.88 million, representing a decrease of RMB1,509.84 million from that at the beginning of the period.

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

For the six months ended 30 June 2019, the Group had made fixed assets investments of RMB234.27 million, including RMB143.14 million for major projects and RMB91.13 million for other projects, which were mainly utilized for the manufacturing base improvement project for main nuclear pump motor units of Harbin Electric Power Equipment Company Limited. Such project was a technological transformation project 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, the project construction has been completed substantially.

There is no significant change in the 2019 fixed assets investment plan of the Group as compared to those disclosed in the 2018 annual report.

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The export business and the businesses settled in foreign currencies and all deposits denominated in foreign currencies of the Group are exposed to exchange risk. As at 30 June 2019, the Group's deposits denominated in foreign currencies were equivalent to approximately RMB542.47 million. As at 30 June 2019, the Group did not enter into any new forward exchange contract.

TAX POLICIES

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

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

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

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

NEW PRODUCTS AND NEW INDUSTRIES

In the first half of 2019, the Group continued to increase its efforts in the development and research on key technologies for seawater desalination and water treatment, solar thermal power generation, biomass coupled power generation and medium and small gas turbines, and in tackling topics including the research and development on large Variable Speed Pumped Storage Units and new small air cooling units, and the upgrading and renovation of ultra-low energy consumption, and accelerated the research and development of new products such as Ultra-supercritical Two-stage Reheating Circulating Fluidized Bed Boiler, Ultra-supercritical W Flame Boiler, medium and small steam turbines, and therefore advanced the process of the development of new industries.

EMPLOYEES, REMUNERATION, STOCK OPTION PLAN AND TRAINING

As at 30 June 2019, the employees of the Group totaled at 13,658 and the total remuneration amounted to RMB627.95 million.

In the first half of 2019, there was no significant change in the Group's remuneration policy from those disclosed in the 2018 annual report. The Group has no long-term incentive scheme in place.

In the first half of 2019, the Group organized 539 classes in total for training and trained 17,176 persons.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019.

PROSPECTS

In 2019, with increasingly intensified market competition and growing concern about the replacement of thermal power generation with clean and renewable power generation, power generation equipment manufacturers are operating in an environment with more and more challenges. In the second half of 2019, the Group will continue to take measures to develop markets, decrease the “account receivables and inventory”, reduce costs and expenses, and respond to tough market condition. The Group will accelerate transformation and upgrading, develop new pillar industry, cultivate new growth drivers, identify strategic partners and continue to promote industrial restructuring. The Group will further deepen reform, and drive and support corporate development, in order to repay Shareholders with more outstanding results.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN SHARE CAPITAL

As at 30 June 2019, 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:

Name of shareholders	Class of shares	Number of shares	Capacity	Percentage to underlying share capital	Percentage to total share capital
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 2019, the Company did not receive any notification about the interests or short positions in shares or underlying shares of the Company, which are required to be entered in the register pursuant to Section 336 of the SFO.

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

As at 30 June 2019, 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).

DISCLOSURE OF SIGNIFICANT EVENTS

On 24 December 2018, the board of directors of Harbin Electric Corporation Co., Ltd. (“HE”), the Controlling Shareholder of the Company, and the board of directors of the Company jointly announced that Citigroup Global Markets Asia Limited, on behalf of HE, firmly intended to make a voluntary conditional cash offer to acquire all the issued H Shares of the Company, which would be made on a basis of HK\$4.56 in cash for each H Share. The closing of the H Share Offer is subject to minimum valid acceptances of the H Share Offer being received by 4:00 p.m. on the Closing Date amounting to at least 90% of the H Shares in issue.

As of 4:00 p.m. on the Closing Date (i.e. Friday, 19 July 2019), HE received valid acceptances of 596,660,566 H Shares, representing approximately 88.32% of H Shares in issue.

The H Share Offer failed to become unconditional and lapsed on 19 July 2019 as the acceptance condition failed to be satisfied. The Company made announcement on relevant situation on 19 July 2019.

COMPLIANCE WITH THE MODEL CODE

As at 30 June 2019, the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by Directors. The Company, having made enquiry to the Directors, confirms that all Directors have complied with the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers throughout the period.

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

For the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

CONTINGENT LIABILITIES

As at 30 June 2019, the guarantees provided by the Company to its subsidiaries and the guarantees between subsidiaries of the Company amounted to RMB2,073.05 million in aggregate. There was no external guarantee of the Group. In addition, as at the end of the current interim period, the Group had no major pending litigations.

PLEDGE OF ASSETS

As at 30 June 2019, the Group pledged its assets of RMB111.92 million (as at 30 June 2018: RMB119.49 million) to secure loans for liquidity.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

THE AUDIT COMMITTEE

The Audit Committee has reviewed and approved the interim report of the Company for the six months ended 30 June 2019. The members of Audit Committee of the Company include Tian Min, Zhu Hong-jie and Yu Wen-xing.

AUDITORS

BDO China Shu Lun Pan Certified Public Accountants LLP, the Company's auditor, has carried out a review of the unaudited interim report for the six months ended 30 June 2019 in accordance with the requirements of "China Certified Public Accountant Review Standard No. 2101 – Review of Financial Statement".

SHAREHOLDERS' MEETING

The 2018 annual general meeting of the Company was held in Harbin, the PRC on 7 May 2019, and extraordinary general meeting and H Share class meeting were held thereafter. The results of relevant meetings had been published on the websites of the Hong Kong Stock Exchange and the Company.

OTHER DISCLOSEABLE INFORMATION

As at 30 June 2019, the Company did not have any information which was required to be disclosed pursuant to Rules 40.3(a) to (i) under Appendix 16 of the Listing Rules.

DOCUMENTS AVAILABLE FOR INSPECTION

The Articles of Association of the Company and the original copies of the interim report and the reviewed financial statements for the six months ended 30 June 2019 are available for inspection at the head office of the Company at 1399 Chuangxinyi Road, Songbei District, Harbin, the PRC.

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

Harbin, PRC
23 August 2019

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