

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

The Board of Directors of Harbin Electric Company Limited (the “**Company**”) is pleased to announce the audited operating results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2018, which were prepared in accordance with the China Accounting Standards for Business Enterprises.

CONSOLIDATION BALANCE SHEET

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

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
Current assets:				
Cash and bank		12,543,251,700.19	16,165,238,281.47	16,165,238,281.47
△ Settlement reserve				
△ Due from banks and other financial institutions		600,000,000.00		
☆ Transactional financial assets				
Financial assets at fair value through profit and loss				
Derivative assets				
Notes receivable and accounts receivable	2	9,787,027,952.87	11,585,761,383.44	14,951,037,967.00
Prepayments		3,592,286,216.57	5,389,851,256.88	5,389,851,256.88
△ Premium receivable				
△ Reinsurance premium receivable				
△ Reinsurance reserve receivable				
Other receivables		1,270,159,303.49	956,987,640.88	956,987,640.88
△ Buying back the sale of financial assets				
Inventories		10,454,912,311.25	12,099,669,344.43	15,546,042,302.41
Including: raw materials		3,212,257,379.48	3,480,285,176.50	3,480,285,176.50
Merchandise inventories (finished goods)		344,585,898.98	426,733,313.77	426,733,313.77
☆ Contract assets	3	8,233,457,249.78	6,811,649,541.54	
Held-for-sale assets				
Current portion of non-current assets		49,955,000.00		
Other current assets		781,645,718.79	3,009,630,060.28	3,009,630,060.28
Total current assets		47,312,695,452.94	56,018,787,508.92	56,018,787,508.92

CONSOLIDATION BALANCE SHEET (CONTINUED)*(Apart from special notes: the unit of amount is RMB)*

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
Non-current assets:				
△ Loans and advances issued			492,068.11	492,068.11
☆ Debt investments				
Available-for-sale financial assets				85,895,000.00
☆ Other debt investments			49,300,000.00	
Held-to-maturity investments				
Long-term receivables		3,358,126.45	2,831,982.28	2,831,982.28
Long-term equity investments		182,173,650.81	202,785,739.51	202,785,739.51
☆ Other equity instruments investments		716,953,772.26	36,595,000.00	
☆ Other non-current financial assets				
Investment property		233,173,255.85	230,786,722.78	230,786,722.78
Fixed assets		5,868,709,413.99	5,960,919,220.49	5,960,919,220.49
Construction in progress		664,086,992.85	863,769,342.73	863,769,342.73
productive biological assets				
Oil and gas assets				
Intangible assets		767,164,480.73	771,625,366.77	771,625,366.77
Development disbursements		274,062,234.32	239,205,849.67	239,205,849.67
Goodwill				
Long-term deferred expenses		29,463,079.46	30,412,529.89	30,412,529.89
Deferred tax assets		490,142,216.40	430,581,741.83	430,581,741.83
Other non-current assets				
Including: authorised reserve material				
Total non-current assets		<u>9,229,287,223.12</u>	<u>8,819,305,564.06</u>	<u>8,819,305,564.06</u>
Total assets		<u><u>56,541,982,676.06</u></u>	<u><u>64,838,093,072.98</u></u>	<u><u>64,838,093,072.98</u></u>

CONSOLIDATION BALANCE SHEET (CONTINUED)*(Apart from special notes: the unit of amount is RMB)*

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
Current liabilities:				
Short-term borrowings		1,572,908,534.19	3,083,568,542.78	3,083,568,542.78
△ Borrowings from central bank				
△ Deposits and placements from other financial institutions		1,701,564,614.29	803,027,749.69	803,027,749.69
△ Placement from banks and other financial institutions		300,000,000.00		
☆ Transactional financial liabilities				
Financial liabilities at fair value through profit and loss				
Derivative liabilities				
Notes payable and Accounts payable	4	19,051,847,769.30	19,531,513,198.03	19,531,513,198.03
Advances from customers				19,691,124,928.12
☆ Contract liabilities	3	14,596,720,387.12	19,691,124,928.12	
△ Securities sold under agreement to repurchase				
△ Fees and commissions payable				
Employee benefits payable		296,206,737.79	319,715,914.16	319,715,914.16
Including: Salary payable		47,549,236.28	91,949,227.59	91,949,227.59
Welfare benefits payable		20,641.00		
# Including: Employee bonus and welfare fund				
Taxes and surcharges payable		374,043,503.79	240,442,949.52	240,442,949.52
Including: taxes payable excluding surcharges		359,389,161.53	227,313,951.19	227,313,951.19
Other payables		282,211,997.43	406,316,171.00	406,316,171.00
△ Reinsurance amounts payable				
△ Reserve of insurance contract				
△ Securities brokering				
△ Securities underwriting				
Held-for-sale liabilities				
Current portion of non-current liabilities		200,000,000.00	2,999,707,500.00	2,999,707,500.00
Other current liabilities		188,548.80	134,893.80	134,893.80
Total current liabilities		38,375,692,092.71	47,075,551,847.10	47,075,551,847.10

CONSOLIDATION BALANCE SHEET (CONTINUED)*(Apart from special notes: the unit of amount is RMB)*

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
Non-current liabilities:				
Long-term borrowings		300,000,000.00	200,000,000.00	200,000,000.00
Bonds payable				
Including: Preferred stocks				
Perpetual debts				
Long-term payable		484,843,694.29	485,953,994.29	485,953,994.29
Long-term employee benefits payable		142,308,359.65	141,039,180.93	141,039,180.93
Provisions		785,172,986.49	631,358,782.54	631,358,782.54
Deferred income		144,934,944.49	154,756,614.71	154,756,614.71
Deferred tax liabilities			7,280,974.79	7,280,974.79
Other non-current liabilities				
Including: authorized reserve fund				
		_____	_____	_____
Total non-current liabilities		<u>1,857,259,984.92</u>	<u>1,620,389,547.26</u>	<u>1,620,389,547.26</u>
Total liabilities		<u>40,232,952,077.63</u>	<u>48,695,941,394.36</u>	<u>48,695,941,394.36</u>

CONSOLIDATION BALANCE SHEET (CONTINUED)*(Apart from special notes: the unit of amount is RMB)*

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
Equity:				
Paid-in capital(share capital)		1,706,523,000.00	1,706,523,000.00	1,706,523,000.00
State-owned capital		1,030,952,000.00	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	1,030,952,000.00
Collectively owned capital				
Private capital				
Including: Individual capital				
Foreign capital		675,571,000.00	675,571,000.00	675,571,000.00
#Less: payback capital				
Paid-in capital (share capital)-net value		1,706,523,000.00	1,706,523,000.00	1,706,523,000.00
Other equity instruments				
Including: Preferred stock				
Perpetual debt				
Capital reserve		3,715,737,494.12	3,690,197,230.17	3,690,197,230.17
Less: treasury shares				
Other comprehensive income		66,045,215.97	18,514,209.22	18,514,209.22
Including: Currency translation reserve		2,716,262.19	-691,329.32	-691,329.32
Specialized reserve		30,812,983.78	19,377,426.96	19,377,426.96
Surplus reserve		809,136,649.47	786,529,945.86	786,529,945.86
Including: Statutory surplus reserve		809,136,649.47	786,529,945.86	786,529,945.86
Other surplus reserve				
#Reserve fund				
#Corporate development fund				
#Return of investment				
△ General risk reserve				
Retained earnings	5	8,698,026,738.58	8,649,609,089.09	8,649,609,089.09
Equity attributable to parent company		<u>15,026,282,081.92</u>	<u>14,870,750,901.30</u>	<u>14,870,750,901.30</u>
Minority interests		<u>1,282,748,516.51</u>	<u>1,271,400,777.32</u>	<u>1,271,400,777.32</u>
Total owner's equity		<u>16,309,030,598.43</u>	<u>16,142,151,678.62</u>	<u>16,142,151,678.62</u>
Total liabilities and owner's equity		<u>56,541,982,676.06</u>	<u>64,838,093,072.98</u>	<u>64,838,093,072.98</u>

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION INCOME STATEMENTS

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

Items	Notes	Current Period	Prior Period
1. Revenue		26,302,310,419.37	31,980,647,049.20
Including: Operating revenue	6	25,879,460,850.62	31,540,323,856.38
△ Interest income		422,786,538.17	440,314,100.89
△ Premium earned			
△ Fees and commissions income		63,030.58	9,091.93
2. Total cost		26,407,437,378.71	31,704,374,594.40
Including: Operating cost	6	22,687,530,919.78	27,267,954,227.34
△ Interest expenses		20,736,138.63	24,780,211.04
△ Fees and commissions expenses		27,263.79	15,292.72
△ Cash surrender amount			
△ Net expenses of claim settlement			
△ Net provisions for insurance contract reserves			
△ Policy dividend expenses			
△ Reinsurance expenses			
Taxes and surcharges		203,240,789.57	178,624,849.16
Selling expenses		731,236,125.20	639,375,988.88
Administrative expenses		1,465,162,135.63	1,695,026,548.09
Including: Party building work funds		17,227,024.91	
Research and development expenses		591,928,067.08	558,679,659.76
Financial expenses		36,096,224.78	322,789,200.85
Including: interest expenses		124,294,753.28	241,715,596.09
Interest income		62,278,154.48	47,822,335.41
Net proceeds of exchange		43,507,919.60	
Net exchange loss			100,183,554.29
Impairment on assets		179,934,482.68	1,017,128,616.56
☆ Credit impairment losses		491,545,231.57	
Other costs and expenses			
Add: Other income		174,777,343.70	45,731,908.93
Investment income (“-” for loss)		139,663,587.58	121,466,718.09
Including: investment income from associates and joint ventures		33,832,648.30	26,360,761.31
△ Gain on foreign exchange (“-” for loss)		-4,285.22	496.06
☆ Net exposure hedging returns (“-” for losses)		812,129.03	
Gain from fair-value changes (“-” for loss)			-12,995,817.33
Proceeds from asset disposal (“-” for loss)		2,283,473.35	3,627,423.23

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

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

Items	Notes	Current Period	Prior Period
3. Operating profits(“-” for loss)		212,405,289.10	434,103,183.78
Add: non-operating income		47,261,642.78	72,224,866.35
Including: Government grants		4,876,415.01	50,539,789.12
Gain from debt restructuring		1,620,168.00	325,314.71
Less: non-operating expenses		102,812,797.65	162,961,645.20
Including: Loss on debt restructuring		38,647,346.91	
4. Profit before tax(“-” for loss)		156,854,134.23	343,366,404.93
Less: income tax	7	54,166,496.62	82,397,811.03
5. Net profit(“-” for net loss)		102,687,637.61	260,968,593.90
(1) By ownership			
Net profit attributable to parent company		71,316,651.84	194,226,740.00
* Profit/loss attributable to minority share-holders		31,370,985.77	66,741,853.90
(2) By going concern basis			
Continuous operating profit and loss		103,075,019.32	234,628,922.24
Termination of the business profit and loss		-387,381.71	26,339,671.66
6. Other comprehensive income after tax		66,567,309.74	27,890,241.37
Other comprehensive income after tax attributable to parent company		66,510,166.44	25,453,003.92
(1) Comprehensive income not to be reclassified as profit or loss		63,358,777.91	
1. Remeasure the change in net liabilities or net assets of defined beneficiary plans			
2. Shares in other comprehensive income that the investee cannot reclassify into profit or loss under the equity method			
☆ 3. Net gain on equity instruments at fair value through other comprehensive income		63,358,777.91	
☆ 4. Fair value changes in enterprise’s own credit risk			
5. Others			

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

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

Items	Notes	Current Period	Prior Period
(2) Other comprehensive income to be reclassified as profit or loss		3,151,388.53	25,453,003.92
1. Share of other comprehensive income of an associate			
☆ 2. Net gain on debt instruments at fair value through other comprehensive income		434,106.70	
3. Gain or loss from fair value changes of available-for-sale financial assets			18,515,228.86
☆ 4. The amount of financial assets reclassified into other comprehensive income			
5. Gain or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			
☆ 6. Other debt investment credit impairment provision			
7. Cash flow hedging reserve		-690,309.68	11,046,444.74
8. Currency translation reserve		3,407,591.51	-4,108,669.68
9. Other profit or loss to be reclassified			
* Other comprehensive income after tax attributable to minority share-holders		57,143.30	2,437,237.45
7. Total comprehensive income		169,254,947.35	288,858,835.27
Total comprehensive income attributable to parent company		137,826,818.28	219,679,743.92
* Total consolidated income attributable to minority share-holders		31,428,129.07	69,179,091.35
8. Earnings per share:			
(1) Basic earnings per share	8	0.04	0.14
(2) Diluted earnings per share	8	0.04	0.14

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION CASH FLOW STATEMENT
(Apart from special notes: the unit of amount is RMB)

Items	Notes	Current Period	Prior Period
1. Cash flows from operating activities:			
Cash received from sales and services		22,354,782,681.00	28,225,962,462.60
△ Net increase in deposits and placements from financial institutions		898,590,519.60	-1,871,034,396.96
△ Net increase in due to central banks			
△ Net increase in placement from financial institutions		-400,000,000.00	
△ Cash received from premiums of original insurance contracts			
△ Net amount of reinsurance business			
△ Net increase in insured deposits and investments			
△ Net increase in disposal of financial assets at fair value through profit and loss			
△ Cash received from interests, fees and commissions		424,925,505.86	447,167,753.39
△ Net increase of placement from banks and other financial institutions			
△ Net increase in repurchasing Taxes and surcharges refunds		126,401,116.57	482,180,368.30
Other cash receipts related to operating activities		736,892,044.63	546,476,733.08
Total cash inflows from operating activities		24,141,591,867.66	27,830,752,920.41
Cash paid for goods and services		19,119,364,492.84	24,402,799,893.73
△ Net increase in loans and advances		-492,068.11	-6,059,019.07
△ Net increase in deposits with central banks and other financial institutions		-112,415,761.06	-36,795,414.91
△ Cash paid for claim settlements on original insurance contracts			
△ Cash paid for interest, fees and commissions		36,902,209.86	28,321,122.91
△ Cash paid for policy dividends			
Cash paid to and for employees		2,839,831,972.33	2,815,255,957.74
Taxes and surcharges cash payments		1,496,406,732.76	1,312,144,726.28
Other cash payments related to operating activities		1,437,993,936.57	2,007,334,731.37
Total cash outflows from operating activities		24,817,591,515.19	30,523,001,998.05
Net cash flows from operating activities		-675,999,647.53	-2,692,249,077.64

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

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

Items	Notes	Current Period	Prior Period
2. Cash flows from investing activities:			
Cash received from withdraw of investments		4,220,000,000.00	3,390,000,000.00
Cash received from investment income		107,622,371.16	207,910,838.39
Net cash received from disposal of fixed assets,intangible assets and other long-term assets		4,456,938.83	7,040,342.41
Net cash received from disposal of subsidiaries and other business units		3,607,833.22	
Other cash receipts related to investing activities		18,173,074.77	8,143,264.60
Total cash inflows from investing activities		4,353,860,217.98	3,613,094,445.40
Cash paid for fixed assets,intangible assets and other long-term assets		398,730,260.63	1,029,227,966.42
Cash payments for investments		2,267,999,994.35	4,090,000,000.00
△ Net increase in pledged loans			
Net cash paid for acquiring subsidiaries and other business units			
Other cash payments related to investing activities		5,467,409.36	2,983,041.09
Total cash outflows from investing activities		2,672,197,664.34	5,122,211,007.51
Net cash flows from investing activities		1,681,662,553.64	-1,509,116,562.11

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

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

Items	Notes	Current Period	Prior Period
3. Cash flows from financing activities:			
Cash received from investments by others			1,269,999,456.00
Including: cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings		1,064,550,263.57	1,410,490,000.00
△ Cash received from bond issues			
Other cash receipts related to other financing activities		5,178,584.78	6,970,000.00
Total cash inflows from financing activities		<u>1,069,728,848.35</u>	<u>2,687,459,456.00</u>
Cash repayments for debts		5,412,652,622.16	136,076,363.31
Cash payments for distribution of dividends, profit and interest expenses		192,880,766.41	178,148,351.58
Including: dividends or profit paid by subsidiaries to minority shareholders		31,707,132.77	
Other cash payments related to financing activities		1,208,154.36	79,404,090.85
Total cash outflows from financing activities		<u>5,606,741,542.93</u>	<u>393,628,805.74</u>
Net cash flows from financing activities		<u>-4,537,012,694.58</u>	<u>2,293,830,650.26</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents		<u>30,740,345.41</u>	<u>-90,313,766.92</u>
5. Net increase in cash and cash equivalents		-3,500,609,443.06	-1,997,848,756.41
Add: beginning balance of cash and cash equivalents		<u>15,206,290,892.00</u>	<u>17,204,139,648.41</u>
6. Ending balance of cash and cash equivalents		<u>11,705,681,448.94</u>	<u>15,206,290,892.00</u>

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (Apart from special notes: the unit of amount is RMB)

Items	Current period														
	Equity attributable to parent company														
	Paid-in capital	Preferred stock	Other equity instruments		Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	△ General risk provision	Retained earnings	Others	Subtotal	Minority interests	Total owner's equity
1. Ending balance of 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
Add: increase/decrease due to changes in accounting policies															
Increase/decrease due to corrections of errors in Prior Period															
Others															
2. Beginning balance of current year	1,706,523,000.00				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
3. Increase/decrease for current year ^{*,**} for decrease															
(1) Total comprehensive income					25,540,263.95		47,531,006.75	11,435,556.82	22,606,703.61		48,417,649.49		155,531,180.62	11,347,739.19	166,878,919.81
(2) Owner's contributions and withdrawals of capital					25,540,263.95		66,510,166.44				71,316,651.84		137,826,818.28	31,428,129.07	169,254,947.35
1. Common stock contributed by owners															
2. Capital contributed by other equity instruments holders															
3. Share-based payment recorded in owner's equity															
4. Others															
(3) Accrual and utilization of specialized reserve					25,540,263.95								25,540,263.95	9,375,000.00	34,915,263.95
1. Accrual of specialized reserve								11,435,556.82					11,435,556.82	1,418,974.02	12,854,530.84
2. Utilization of specialized reserve								23,194,591.55					23,194,591.55	3,859,921.73	27,045,513.28
(4) Profits distribution								-11,759,034.73					-11,759,034.73	-2,431,947.71	-14,190,982.44
1. Appropriation of surplus reserve including: statutory surplus reserve									22,606,703.61						
Discretionary surplus reserve									22,606,703.61						
#Reserve fund									22,606,703.61						
#Corporate development fund															
#Return of investment															
2. Accrual of general risk reserve															
3. Distribution to owner/shareholder															
4. Others															
(5) Transfer within owner's equity															
1. Capital reserve transferred to paid-in capital															
2. Surplus reserve transferred to paid-in capital															
3. Recover of loss by surplus reserve															
4. Defined benefit plan changes earned forward to retained earnings															
* 5. Other comprehensive income earned forward to retained earnings															
Others															
6. Ending balance of current 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

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
(Apart from special notes: the unit of amount is RMB)

Items	Equity attributable to parent company										Total owner's equity			
	Paid-in capital	Preferred stock	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	△ General risk provision	Retained earnings		Others	Subtotal	Minority interests
1. Ending balance of last year	1,576,806,000.00			2,764,208,480.41		-6,938,794.70	15,801,148.88	786,529,945.86	8,496,686,529.09			13,453,093,309.54	1,209,321,445.94	14,642,414,755.48
Add: increase/decrease due to changes in accounting policies														
Increase/decrease due to corrections of errors in Prior Period														
Others														
2. Beginning balance of current year	1,576,806,000.00			2,764,208,480.41		-6,938,794.70	15,801,148.88	786,529,945.86	8,496,686,529.09			13,453,093,309.54	1,209,321,445.94	14,642,414,755.48
3. Increase/decrease for current year ** for decrease														
(1) Total comprehensive income	329,717,000.00			925,988,749.76		25,453,003.92	3,576,278.08		152,922,560.00			1,437,657,591.76	62,079,331.38	1,499,736,923.14
(2) Owner's contributions and withdrawals of capital	329,717,000.00			925,988,749.76		25,453,003.92			194,226,740.00			219,679,743.92	69,179,091.35	288,858,835.27
1. Common stock contributed by owners														
2. Capital contributed by other equity instruments holders														
3. Share-based payment recorded in owner's equity														
4. Others														
(3) Accrual and utilization of specialized reserve				-14,293,706.24								-14,293,706.24		-14,293,706.24
1. Accrual of specialized reserve							3,576,278.08					3,576,278.08	447,932.26	4,024,210.34
2. Utilization of specialized reserve							24,255,657.57					24,255,657.57	3,829,501.55	28,085,159.12
(4) Profits distribution							-20,679,379.49		-41,304,180.00			-20,679,379.49	-3,381,569.29	-24,060,948.78
1. Appropriation of surplus reserve including: statutory surplus reserve									-41,304,180.00				-7,547,692.23	-48,851,872.23
Discretionary surplus reserve														
#Reserve fund														
#Corporate development fund														
#Return of investment														
2. Accrual of general risk reserve														
3. Distribution to owner/shareholder														
4. Others														
(5) Transfer within owner's equity														
1. Capital reserve transferred to paid-in capital														
2. Surplus reserve transferred to paid-in capital														
3. Recover of loss by surplus reserve														
4. Defined benefit plan changes carried forward to retained earnings														
☆ 5. Other comprehensive income carried forward to retained earnings														
6. Others														
4. Ending balance of current 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

Corporate representative:

Chief Accountant:

Accounting Supervisor:

2018 ANNUAL PERFORMANCE ANNOUNCEMENT

(Except for special notes, the units of amount are RMB)

I. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. Basis of preparation

Based on going concern and actual transactions and events, the Company prepared financial statements in accordance with the basic and specific standards of the Accounting Standards for Business Enterprises, the Application Guidance for Accounting Standard for Business Enterprises, interpretations of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance (hereinafter collectively referred to as “CAS”), and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting issued by the China Securities Regulatory Commission.

2. Going concern

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

II. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

Items	Closing balance	Opening balance
Notes receivable	3,112,281,635.68	4,362,451,678.86
Accounts receivable	6,674,746,317.19	7,223,309,704.58
Total	<u>9,787,027,952.87</u>	<u>11,585,761,383.44</u>

1. Notes receivable

Type	Carrying Amount	Closing balance		Book value	Opening balance	
		Bad debt Provision	Book value		Carrying Amount	Bad debt Provision
Bank acceptance	2,549,245,442.79		2,549,245,442.79	3,456,249,576.99		3,456,249,576.99
Business acceptance	563,036,192.89		563,036,192.89	906,202,101.87		906,202,101.87
Total	<u>3,112,281,635.68</u>		<u>3,112,281,635.68</u>	<u>4,362,451,678.86</u>		<u>4,362,451,678.86</u>

2. Accounts receivable

Items	Closing balance	Opening balance
Accounts receivable	11,238,171,927.04	11,886,206,458.19
Less: bad-debt provision	<u>4,563,425,609.85</u>	<u>4,662,896,753.61</u>
Net accounts receivable	<u>6,674,746,317.19</u>	<u>7,223,309,704.58</u>

2.1 Accounts receivable accruing bad debt provision by applying aging analysis

Age	Closing balance Amount	Opening balance Amount
Within one year	4,020,608,853.48	4,325,601,379.58
One to two years	1,646,863,673.80	1,479,843,186.24
Two to three years	537,649,317.28	810,790,231.08
Over three years	<u>469,624,472.63</u>	<u>607,074,907.68</u>
Total	<u>6,674,746,317.19</u>	<u>7,223,309,704.58</u>

The credit period given to customers 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 regularly assesses the customer's credit.

III. CONTRACT ASSETS AND CONTRACT LIABILITIES

1. Details of contractual assets and contractual liabilities

	Contract assets
Opening balance	8,042,694,649.96
Increase in this period	8,979,557,673.69
Converted in to accounts receivable in this period	7,340,262,717.42
Closing balance	9,681,989,606.23
Contract asset impairment provision	1,448,532,356.45
Net closing balance	8,233,457,249.78
Including: listed as contract assets	8,233,457,249.78
listed as other non-current assets	

	Contract liabilities
Opening balance	19,588,274,771.42
Increase in this period	11,459,274,863.15
Interest adjustment	
The income confirmed in the current period includes the income in the balance at the beginning of the year.	16,450,829,247.45
Closing balance	14,596,720,387.12
Including: listed as contract liabilities	14,596,720,387.12
listed as other non-current liabilities	

IV. NOTES PAYABLE AND ACCOUNTS PAYABLE

Items	Closing balance	Opening balance
Notes payable	5,836,028,015.25	5,479,804,293.43
Accounts payable	13,215,819,754.05	14,051,708,904.60
Total	<u>19,051,847,769.30</u>	<u>19,531,513,198.03</u>

1. Notes payable

Type	Closing balance	Opening balance
Bank acceptance	4,611,567,962.08	4,570,861,423.55
Business acceptance	1,224,460,053.17	908,942,869.88
Total	<u>5,836,028,015.25</u>	<u>5,479,804,293.43</u>

2. Accounts payable

Items	Closing balance	Opening balance
Within one year	10,003,805,732.84	11,359,184,726.32
One to two years	1,811,999,790.23	1,328,277,162.52
Two to three years	597,497,973.67	586,962,812.92
Over three years	802,516,257.31	777,284,202.84
Total	<u>13,215,819,754.05</u>	<u>14,051,708,904.60</u>

V. UNDISTRIBUTED PROFIT

Items	Current period
Balance before adjustment at the end of preceding period	8,649,609,089.09
Adjust the total undistributed profit at the beginning of the year (increase +, decrease-)	
Opening balance after adjustment	8,649,609,089.09
Add: Net profit attributable to owners of the parent company	71,316,651.84
Other increase	25,305,546.26
Less: Appropriation of statutory surplus reserve	22,606,703.61
Appropriation of discretionary surplus reserve	
Appropriation of general risk reserve	
Dividends payable on ordinary shares	25,597,845.00
Dividends on ordinary share converted to share capital	
Others	
Closing balance	<u><u>8,698,026,738.58</u></u>

The Company's distribution of common stock dividends to shareholders during the year was in accordance with the 2017 after-tax profit distribution plan which was reviewed and passed at the 2017 annual general meeting of the company held on May 25, 2018. Based on the company's total share capital of 1,706,523,000 at the end of 2017, the company announced the distribution of the company's 2017 final dividend of RMB0.015 per share (including the applicable tax rate), and distributed 2017 final dividend of RMB25,597,845.00 in total(including tax).

VI. OPERATING INCOME AND OPERATING COST

Items	Amount of this period		Amount of the previous period	
	Income	Cost	Income	Cost
Main business	<u>25,673,513,488.27</u>	<u>22,523,020,468.15</u>	31,345,884,860.70	27,104,569,528.75
Other business	<u>205,947,362.35</u>	<u>164,510,451.63</u>	194,438,995.68	163,384,698.59
Total	<u><u>25,879,460,850.62</u></u>	<u><u>22,687,530,919.78</u></u>	<u><u>31,540,323,856.38</u></u>	<u><u>27,267,954,227.34</u></u>

VII. INCOME TAX EXPENSE

Items	Current period	Previous period
Current income tax calculated based on tax law and related regulations	113,890,721.19	163,258,837.00
Adjustment to deferred income tax	-59,724,224.57	-80,861,025.97
Total	54,166,496.62	82,397,811.03

VIII. EARNINGS PER SHARE

1. Basic Earnings Per share

Items	Current period	Previous period
Consolidated net profit attributable to ordinary shareholders of the parent company	71,316,651.84	194,226,740.00
Consolidated net profit attributable to ordinary shareholders of the parent company (After deducting non-recurring gains and losses)	-37,928,493.45	110,097,146.85
The weighted average number of ordinary shares issued by the parent company	1,706,523,000.00	1,376,806,000.00
Basic eps (<i>Yuan per share</i>)	0.0418	0.1411
Basic eps (<i>Yuan per share</i>) (After deducting non-recurring gains and losses)	-0.0222	0.0800

Common stock weighted average calculation:

Items	No.	Current period	Previous period
Number of ordinary shares outstanding at the beginning of the year	1	1,706,523,000.00	1,376,806,000.00
Issuance of new shares or debt to convert shares and other increase in the number of shares (II)	2		329,717,000.00
Increase the cumulative number of shares (II) from the next month to the end of the year	3		
Number of months in the reporting period	4	12	12
Weighted average number of common shares issued outside	5=1+2*3/12	1,706,523,000.00	1,376,806,000.00

2. Diluted Earnings Per share

Items	Current period	Previous period
Adjusted net profit attributable to common shareholders of the parent company	71,316,651.84	194,226,740.00
Adjusted net profit attributable to ordinary shareholders of the parent company (after deducting non-recurring gains and losses)	-37,928,493.45	110,097,146.85
The weighted average number of ordinary shares issued by the Company after adjustment	1,706,523,000.00	1,376,806,000.00
Diluted Earnings Per share	0.0418	0.1411
Diluted Earnings Per share (After deducting non-recurring gains and losses)	-0.0222	0.0800

IX. SEGMENT INFORMATION

1. The assets, liabilities and income of segments

Items	Thermal power host equipment	Water and electricity host equipment	Plant engineering service	Power station auxiliary equipment and ancillary products	Nuclear products	Ac and dc motor and others	Total
As at 31 Dec 2018							
Total amount of reportable segment assets	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
Including: increase the amount of construction in progress in the current period	166,286,437.12	33,271,531.75		3,461,068.88	48,118,232.00	122,108,436.70	373,245,706.45
Purchase of fixed assets and intangible assets	37,055,011.52	5,563,549.63	3,113,450.72	3,749,449.78	41,635,536.57	32,934,371.17	124,051,369.39
Total amount of reportable segment liabilities	<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>
Jan to Dec 2018							
Segment income							
Income from external customers	11,877,253,493.44	1,704,635,327.78	7,411,068,070.00	899,959,203.92	1,338,543,115.52	2,648,001,639.96	25,879,460,850.62
Income between segment	2,445,150,561.55					25,907,149.35	2,471,057,710.90
Reportable segment income	14,322,404,054.99	1,704,635,327.78	7,411,068,070.00	899,959,203.92	1,338,543,115.52	2,673,908,789.31	28,350,518,561.52
Reportable segment gross margin	<u>1,688,416,137.54</u>	<u>151,307,340.39</u>	<u>253,427,300.43</u>	<u>90,244,697.64</u>	<u>279,757,718.61</u>	<u>762,349,542.38</u>	<u>3,225,502,736.99</u>

Items	Thermal power host equipment	Water and electricity host equipment	Plant engineering service	Power station auxiliary equipment and ancillary products	Nuclear products	Ac and dc motor and others	Total
As at 31 Dec 2017							
Total amount of reportable segment assets	41,212,539,999.63	4,621,011,351.10	6,651,596,886.48	3,020,134,669.35	8,114,465,554.50	6,582,095,472.16	70,201,843,933.22
Including: increase the amount of construction in progress in the current period	205,698,456.10	11,100,895.65	15,746,976.00	12,736,227.18	502,590,983.75	81,402,678.44	829,276,217.12
Purchase of fixed assets and intangible assets	39,551,824.68	18,813,052.57	205,009,241.96	985,708.73	25,456,422.56	39,193,899.47	329,010,149.97
Total amount of reportable segment liabilities	<u>34,634,317,661.74</u>	<u>2,229,206,421.05</u>	<u>5,884,095,242.01</u>	<u>2,316,900,005.18</u>	<u>6,304,818,582.81</u>	<u>4,993,809,765.82</u>	<u>56,363,147,678.61</u>
Jan to Dec 2017							
Segment income							
Income from external customers	13,871,644,397.96	1,146,212,806.36	10,704,840,383.96	1,339,075,625.77	2,032,575,585.70	2,445,975,056.63	31,540,323,856.38
Income between segment	2,534,289,826.09		-141,400,613.00			22,799,084.22	2,415,688,297.31
Reportable segment income	16,405,934,224.05	1,146,212,806.36	10,563,439,770.96	1,339,075,625.77	2,032,575,585.70	2,468,774,140.85	33,956,012,153.69
Reportable segment gross margin	<u>2,371,509,963.21</u>	<u>182,328,452.21</u>	<u>490,768,642.94</u>	<u>195,206,172.08</u>	<u>519,357,241.58</u>	<u>594,919,083.22</u>	<u>4,354,089,555.24</u>

2. Information of assets, liabilities and income of segments

Items	Closing balance	Opening balance
Assets		
Reportable segment assets	63,868,728,033.88	70,201,843,933.22
Offset segment related transaction	-19,044,229,265.34	-20,122,713,238.83
Reportable segment net assets	44,824,498,768.54	50,079,130,694.39
Deferred tax assets	490,142,216.40	430,581,741.83
Other non-current assets		
Financial asset and its change record in current profit and loss based on fair value		
Restricted and pledged bank borrowing		
Bank deposit	8,730,639,860.30	12,155,831,808.52
Central bank deposit	635,145,558.72	747,561,319.78
Cash and cash equivalent	50,694,420.76	107,033,625.67
Undistributed headquarters and company assets	1,810,861,851.34	1,317,953,882.79
Total assets	<u>56,541,982,676.06</u>	<u>64,838,093,072.98</u>

Items	Closing balance	Opening balance
Liabilities		
Reportable segment liabilities	50,537,687,451.61	56,363,147,678.61
Offset segment related transaction	-12,683,916,496.00	-8,721,527,596.46
Reportable segment net liabilities	37,853,770,955.61	47,641,620,082.15
Tax payable	374,043,503.79	240,442,949.52
Deferred tax liabilities		7,280,974.79
Undistributed liabilities	2,005,137,618.23	806,597,387.90
	<u>40,232,952,077.63</u>	<u>48,695,941,394.36</u>
Total liabilities		

Items	Current period	Previous period
Income		
Income from external customers	25,879,460,850.62	31,540,323,856.38
Income between segment	2,471,057,710.90	2,415,688,297.31
Reportable segment income	28,350,518,561.52	33,956,012,153.69
Reportable segment gross margin	3,225,502,736.99	4,354,089,555.24
Offset segment loss	33,572,806.15	81,719,926.20
Report segment gross margin from external customers of the group	3,191,929,930.84	4,272,369,629.04
Long-term equity investment gain based on equity method	33,832,648.30	26,360,761.31
Interest income	485,064,692.65	488,136,436.30
Chinese government grants	179,653,758.71	96,282,405.05
Financial asset and its change record in current profit and loss based on fair value		-11,399,680.48
Financial liabilities and its change record in current profit and loss based on fair value		
Interest expense	145,030,891.91	266,495,807.13
Impairment loss for the present period of long-term assets such as fixed assets and intangible assets		29,642,866.59
Undistributed other income and net income	151,370,514.79	97,359,627.28
Undistributed headquarters and corporate expenses	3,739,966,519.15	4,329,604,099.85
	<u>156,854,134.23</u>	<u>343,366,404.93</u>
Total income		

3. Region information

Items	Income from external customers	
	2018	2017
1. Domestic (China)	18,482,059,253.38	20,937,172,169.16
2. Overseas		
– Islamic Republic of Pakistan	940,501,828.49	3,883,858,635.49
– The Republic of Turkey	292,124,872.39	1,771,972,533.17
– The United Arab Emirates	5,275,085,949.28	1,687,649,086.59
– The Republic of Ecuador	382,959,581.28	1,164,629,635.62
– People’s Republic of Bangladesh	139,432,199.33	617,243,022.29
– the republic of indonesia	66,947,781.02	314,662,168.56
– other countries	300,349,385.45	1,163,136,605.50
Overseas subtotal	7,397,401,597.24	10,603,151,687.22
Total	25,879,460,850.62	31,540,323,856.38

X. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Investee	Opening balance	Changes in the current period							Closing balance	Provision for impairment loss	Impairment provision at the end of the year
		Increase	Decrease	Under the equity method to confirm the investment profit and loss	Other comprehensive income adjustment	Other equity changes	Declaration of cash dividends or profits	Others			
1. Associates											
General Electric - Harbin Power Services (Qinhuangdao) Company	135,003,849.87			30,101,873.68				45,342,884.15		119,762,839.40	
Huludao Binhai Hydro Power Company Limited	51,265,399.11									51,265,399.11	10,223,752.07
Harbin HE Liling Hydropower Equipment New Technology Development Co., Ltd.	6,570,491.74			233,304.71						6,803,796.45	
Harbin Huitong Power Engineering Company Limited	5,823,729.61			3,020,037.04				2,293,598.96		6,550,167.69	
Heilongjiang Harbin Hydropower Development	3,850,222.15		3,920,930.55	70,708.40						-	
Harbin HE Petrol Station Co., Ltd.	1,638,475.76			406,724.47				30,000.00		2,015,200.23	
Harbin Ruifeng New Energy Co., Ltd.		6,000,000.00								6,000,000.00	
Total	204,152,168.24	6,000,000.00	3,920,930.55	33,832,648.30				19,243,152.96		192,397,402.88	10,223,752.07

XI. NET CURRENT ASSETS

Items	Closing balance	Opening balance
Current assets	47,312,695,452.94	56,018,787,508.92
Less: current liabilities	<u>38,375,692,092.71</u>	<u>47,075,551,847.10</u>
Net current assets	<u>8,937,003,360.23</u>	<u>8,943,235,661.82</u>

XII. TOTAL ASSETS MINUS CURRENT LIABILITIES

Items	Closing balance	Opening balance
Total assets	56,541,982,676.06	64,838,093,072.98
Less: current liabilities	<u>38,375,692,092.71</u>	<u>47,075,551,847.10</u>
Total assets minus current liabilities	<u>18,166,290,583.35</u>	<u>17,762,541,225.88</u>

XIII. DIVIDEND

After the 22nd meeting of the 8th Board of Directors reviewed and approved the 2018 profit distribution plan, the board of directors does not recommend to pay the company's final dividend of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

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

MACRO-ECONOMY AND INDUSTRY DEVELOPMENT

At present, the world multi-polarization and economic globalization are moving forward in twists and turns, the global economy and trade grew at a slower pace, the uncertainties of the global economy are increasing, and the world is facing a huge change that were not experienced in a century, which combined with both risks and opportunities. The global energy structure is undergoing profound transformation and accelerating to a low-carbon and carbon free direction, and the primary energy is becoming clean, low-carbon and diversified. The global energy transformation is faster than expected, the clean energy has become the dominant force for the global energy consumption growth, and the clean energy consumption is expected to exceed 45% by 2030. The energy consumption of China is speeding up the transformation to green and low-carbon, and is gradually solving over-dependence on coal through diversified energy development, it is expected that the non-fossil energy will account for approximately 15% of the total primary energy consumption by 2020 and approximately 20% by 2030.

In the power generation equipment manufacturing industry, the total installed capacity of power generation equipment in the PRC was 1.90 billion KW as at the end of 2018. Among which, the installed capacity of renewable energy power generation was 728.00 million KW, representing a year-on-year increase of 12%, and accounted for 38.32% of the total installed capacity, representing a year-on-year increase of 1.7 percentage points. In 2018, the newly increased installed capacity of power generation equipment nationwide was 124.00 million KW, representing a year-on-year decrease of 6.98%. Among which, the newly increased installed capacity of thermal power was approximately 41.19 million KW, representing a year-on-year decrease of 4.59 million KW (or 7.5%); the newly increased installed capacity of hydropower was approximately 8.54 million KW, representing a year-on-year decrease of 4.33 million KW (or 33.7%); the newly increased grid-connected installed capacity of wind power was 20.59 million KW, representing a year-on-year increase of 1.07 million KW (or 5.5%); the newly increased installed capacity of photovoltaic power generation was 44.26 million KW, representing a year-on-year decrease of 9.12 million KW (or 17.1%); and the newly increased installed capacity of biomass power generation was 3.05 million KW. The replacement role of clean energy to renewable energy is increasingly prominent.

PRODUCTION AND OPERATION

Overview

2018 was a year for the Group to struggle in adversity as well as transformation and development, and also a year for business expansion and reform and innovation. During the year, facing severe situations, all cadres and employees of the Group have gathered together to overcome difficulties, and the Company has achieved a stable overall operation.

New contracts

In 2018, facing a complicated and challenging internal and external situation, the Group made every endeavor to open up the market by giving full rein to its advantages of concentrated marketing and industrial operation, thereby realizing RMB33.744 billion worth of duly signed contracts (2017: RMB34.162 billion), of which RMB12.186 billion (or 36.11% of total contract value) for thermal power equipment, RMB3.191 billion (or 9.46% of total contract value) for hydropower equipment, RMB0.431 billion (or 1.28% of total contract value) for nuclear power equipment, RMB0.104 billion (or 0.31% of total contract value) for steam equipment, RMB12.456 billion (or 36.91% of total contract value) for power engineering, RMB3.178 billion (or 9.42% of total contract value) for power station services, and RMB2.198 billion (or 6.51% of total contract value) for other products.

Thermal power industry: The total market size continued to decline, maintaining a severe market situation. In 2018, the formal contracted value of the Group's thermal power equipment decreased by 17.82% over the previous year.

Steam power industry: At present, the domestic market demand for steam power is still dominated by F-class turbines, while a few H-class turbine projects are emerging. In 2018, the formal contract value of the Group's steam power equipment decreased by 92.13% over the previous year.

International market: Due to the official implementation of the Group's contracts initially signed and projects awarded in 2017, the formal contract value of the Group in international market in 2018 was RMB14.35 billion, representing an increase of 377.6% over the previous year.

Production & service

In terms of the output of main products, affected by the national policies on de-capacity of thermal power and other related policies, certain of the Group's on-going thermal power projects was suspended, and the production of thermal power products was decreased over the previous year, while new bidding projects continued to decrease. In order to minimize our operational risks, the Group made its production plan in a scientific and reasonable manner by taking into full account internal and external situations, users' actual needs and project implementation risk and other factors. In 2018, output of the Group's power generation equipment amounted to 14,190 MW, up by 0.1% over the same period last year, of which 2,260 MW were produced by water turbine generator units, up by 18.9% over the same period last year and 11,930 MW by steam turbine generators, down by 2.8% over the same period last year. Output of steam turbines for power stations was 10,030 MW, up by 2.0 % over the same period last year and that of boilers for power stations was 14,180 MW, down by 17.0 %. The production scale was on a downward trend in general and was lower than the industry level.

In terms of the product services, in 2018, the Group officially launched its power station service platform, realizing the "Internet + joint reserve + service" business model; actively developed the marketing models such as "technical improvement + parameters upgrading", "technical improvement + overhaul" and "technical improvement + capital"; established the Jiangsu & Zhejiang Service Center and made breakthroughs in regional services; provided on-site services of 1,167 person/day for the whole year, and performed on-site supervision and control; and formulated the Handbook for Power Station Service Standards and strictly implemented the specification, the Group's service image has been improved constantly.

Scientific research inputs and achievements

In 2018, the Company incurred a R&D expenditure of RMB1.08 billion, completed 282 R&D projects and 75 new products, receiving 23 awards for technology achievements, 17 of which were related to provincial and ministerial ones. The Localized Development and Manufacturing of 650 MW-class Nuclear Turbine Generators conducted by the Turbine Company won the Honor Award of China's Industry Awards; the Development and Application of 1,000 MW-class Ultra-supercritical Two-stage Reheating Tower-type boiler conducted by the Boiler Company won the First Prize for Technology Progress Award of Heilongjiang Province, the Research and Application of Key Technologies of Water Pumps and Water Turbines for 400 MW-class Large-scale Pumped-storage Units conducted by the Machinery Company was honored with the First Prize for the Energy Innovation Award by China Energy Research Society.

In 2018, the Group continued to improve the construction of R&D system, among which, the Power Equipment Company established its main pump engineering centre, the Valve Company established its R&D department, and the Turbine Company completed the integration and restructuring of its R&D functions; the Group pushed forward technological innovation and achieved major breakthrough in the new MW-class steam turbine generators, the research and development of the world's first ball bed modular high-temperature gas-cooled reactor steam generator and of AP1000 main pump motor succeeded, and the first water guiding device of KW hydropower unit in Baihetan passed the inspection and acceptance; the Group strengthened the connection between technologies and markets, collected 66 technical demands from the market and completed 52 of them, and completed the R&D of biomass, low-pressure cylinder and zero output transformation, waste heat power generation and other equipment and obtained orders from customers.

New products and new industries

In 2018, the Group actively carried out research on the key technologies of seawater desalination and water treatment, solar thermal power generation, biomass coupled power generation, medium and small gas turbines and offshore wind power, so as to reserve new technologies and expand into new areas; it has developed the 50 MW-class photothermal steam turbine unit by leveraging on the Gonghe project in Qinghai and developing in-depth the design; the Group explored the ways enter into the wind power industry by production license and joint design, etc.; the Group proactively applied the second batch of national solar thermal demonstration projects, and the 200,000 KW solar thermal power demonstration project in Yumen passed the feasibility study review; the Group also achieved a breakthrough in the field of biomass coupled power generation, and the demonstration project for technological transformation of thermal coupled biomass gas-fired power generation of Datang Changshan Thermal Power Plant was put into trial operation.

Capital expenditure and significant investments held

In 2018, the Group injected a total of capital expenditures worth RMB494 million for major construction and technological transformation projects. The major projects include:

Technology upgrading project for building nuclear turbine core capacity of Harbin Turbine Company Limited, manufacturing base improvement project for main nuclear pump motor units of Harbin Electric Power Equipment Company Limited (HEPE) and manufacturing capacity enhancement project for key nuclear pumps and key equipment for long-distance natural gas pipelines of HEPE. These projects were technological transformation projects designed for nuclear power products and high-power synchronous motors for natural gas long-distance pipelines, 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, and could also meet the Group's independent production needs required by 1,000 MW nuclear power main pumps as well as high-power synchronous motors for natural gas long-distance pipelines. Currently, all these projects have completed the construction targets.

Major acquisitions and sales of subsidiaries, associates and joint ventures

In 2018, the company carried out no major acquisitions or sales of subsidiaries, associates and joint ventures.

MAJOR FINANCIAL INDEXES

In 2018, the Group's operation situation was relatively stable. However, due to the impacts of the macroeconomic environment both at home and abroad and the development trend of the industry, the sales scale has decreased and the market competition became more fierce, the order price of products has been on the decline, while the prices of raw materials still showed an upward trend, and the profit margin has been further narrowed.

Profit

In 2018, net profit attributable to the owner of the parent company realized by the Group registered RMB71.32 million, representing a decrease of 63.28% over the same period last year; earnings per share were RMB0.04, down by RMB0.10 year on year. The decrease in the Group's profit was mainly attributable to the decrease in gross profit resulting from the decrease in sales scale.

Operating income

In 2018, the Group recorded an operating income of RMB25,879.46 million, representing a decrease of 17.95% over the same period last year, of which operating income from the main thermal power equipment (including thermal power and steam power products) was RMB11,877.25 million (or 45.89% of the total operating income), representing a year-on-year decrease of 14.38%. Operating income from main hydropower equipment was RMB1,704.64 million (or 6.59% of the total operating income), representing a year-on-year increase of 48.72%. Operating income from engineering services for power stations was RMB7,411.07 million (or 28.64% of the total operating income), representing a year-on-year decrease of 30.77%. Operating income from ancillary equipment and supplementary products for power stations was RMB899.96 million (or 3.48% of the total operating income), representing a year-on-year decrease of 32.79%. Operating income from AC/DC motors and other products and services was RMB2,648.00 million (or 10.23% of the total operating income), representing a year-on-year increase of 8.26%. Operating income from nuclear power products was RMB1,338.54 million (or 5.17% of the total operating income), representing a year-on-year decrease of 34.15%. Affected by the macroeconomic environment both at home and abroad and the development trend of the industry, the overall sales scale of the Group declined. The hydropower market ushers in the peak of pumped storage development and the proportion of revenue generated from the hydropower host equipment segment has increased. However, as the majority of overseas projects has passed the peak season of execution, the newly entered projects were in the early stage of construction and the proportion of revenue generated from the power station engineering services segment decreased significantly.

In 2018, the Group recorded an income of export of RMB7,397.40 million (or 28.58% of the total operating income), decreasing by RMB3,205.75 million over the previous year. The export was dominated by Asia and South America, in which export to Asia amounting to RMB6,841.70 million while export to South America amounting to RMB382.96 million.

Cost

In 2018, the operating costs of the Group amounted to RMB22,687.53 million, representing a decrease of 16.80% as compared with the corresponding period of last year, mainly due to the decrease in sales scale.

Gross profit and gross profit margin

In 2018, the Group realized a gross profit from operating business of RMB3,191.93 million, representing a year-on-year decrease of 25.29%, and a gross profit margin was 12.33%, representing a year-on-year decrease of 1.21%. Out of the RMB3,191.93 million, RMB1,670.21 million was attributable to the gross profit from main thermal power equipments, decreasing by RMB630.31 million over the previous year, while the corresponding gross profit margin was 14.06%, representing a year-on-year decrease of 2.52%; RMB151.31 million was attributable to the gross profit from main hydropower equipment, decreasing by RMB31.02 million over the previous year, while the corresponding gross profit margin was 8.88%, representing a year-on-year decrease of 7.03%; RMB253.43 million was attributable to the gross profit from engineering services for power stations, decreasing by RMB243.9 million over the previous year, while the corresponding gross profit margin was 3.42%, representing a year-on-year decrease of 1.23%; RMB90.24 million was attributable to the gross profit from ancillary equipment and supplementary products for power stations, decreasing by RMB104.96 million over the previous year, while the corresponding gross profit margin was 10.03%, representing a year-on-year decrease of 4.55%; RMB746.98 million was attributable to the gross profit from AC/DC motors and other products and services, increasing by RMB169.35 million over the previous year, while the corresponding gross profit margin was 28.21%, representing a year-on-year increase of 4.59%; RMB279.76 million was attributable to the gross profit from nuclear products, decreasing by RMB239.6 million over the previous year, while the corresponding gross profit margin was 20.90%, representing a year-on-year decrease of 4.65%. The decrease in our Group's gross profit margin was firstly due to the volume of products launched in the market decreased year by year as a result of the overcapacity of domestic coal power capacity, and the tender price of products continued to decline; Secondly, was due to the commodity price fluctuated, and steel price rose faster in line with the increase in material cost of products.

Expenses for the Period

In 2018, the Group's selling expenses incurred amounted to RMB731.24 million, representing an increase of RMB91.86 million or 14.37% as compared to the corresponding period of last year, primarily due to we stepped up efforts to collect trade receivables during the year, which resulted in a year-on-year increase of defect elimination cost; the administrative expenses incurred amounted to RMB1,465.16 million, representing a year-on-year decrease of RMB229.86 million or 13.56%, which mainly due to a year-on-year decrease in labor costs; the research and development expenses incurred amounted to RMB591.93 million, representing a year-on-year increase of RMB33.25 million or 5.95%; the finance expenses incurred amounted to RMB36.1 million, representing a year-on-year decrease of RMB286.69 million or 88.82%, mainly due to the decrease in interest expense as a result of the reduction of interest-bearing debts, and the increase in net exchange gain resulted from the changes in exchange rate.

Funding source and borrowing status

The Group financed its operation and development with three major funding sources, namely shareholder's funds, trade receivables from customers and bank borrowings. The Group arranges borrowings based on each specific project. Except for some exceptions, loans are usually raised by each of the Group's subsidiaries respectively, while prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 31 December 2018, the Group's total borrowings amounted to RMB2,072.91 million (31 December, 2017: RMB3,283.57 million), all of which amounts were borrowed from various financial institutions, such as commercial banks, at interest rates stipulated by the state. Among those borrowings, the amount repayable within one year amounted to RMB1,772.91 million, representing a decrease of RMB1,310.66 million as compared with the beginning of the year; the borrowings repayable after one year amounted to RMB300.0 million, representing an increase of RMB100.0 million as compared to the beginning of the year. As at 31 December 2018, the Group's borrowings were all in RMB and there was no amount due. The repayment plan has been made for the borrowings that were not due, with no risk of default.

Monetary capital and cash flows

As at 31 December 2018, the monetary capital of the Group was RMB12,543.25 million, representing a decrease of RMB3,621.99 million as compared with the beginning of the year. During the period, the net cash flow generated from operating activities of the Group was -676.0 million; the net cash flow from investing activities was RMB1,681.66 million; net cash flow from financing activities was RMB -4,537.01 million. The Group was exposed to the decrease in monetary capital due to the repayment of 3.0 billion corporate bonds and the decrease of contract liabilities.

Asset structure and movements

As at 31 December 2018, the total assets of the Group amounted to RMB56,541.98 million, representing a decrease of RMB8,296.11 million or 12.80% as compared to the beginning of the year, mainly due to the decrease in the size of monetary capital and prepayments, out of which RMB47,312.69 million was current assets, representing 83.68% of total assets; and RMB9,229.29 million was current assets, representing 16.32% of our total assets.

Liabilities

As at 31 December 2018, total liabilities of the Group amounted to RMB40,232.95 million, representing a decrease of RMB8,462.99 million as compared to the beginning of the year, mainly due to the repayment of 3.0 billion corporate bonds and the decrease of contract liabilities, out of which RMB38,375.69 million was current liabilities, representing 95.38% of total liabilities; and RMB1,857.26 million was non-current liabilities, representing 4.62% of our total liabilities. As at 31 December 2018, the gearing ratio of the Group was 71.16%.

Owners' interests

As at 31 December 2018, the total equity attributable to the owners of the parent company amounted to RMB15,026.28 million, representing an increase of RMB155.53 million as compared to the beginning of the year; the net asset value per share was RMB8.81, representing an increase of RMB0.10 as compared with the beginning of the year. During the period, the return rate on net assets of the Group was 0.48%.

Gearing ratio

As at 31 December 2018, the Group's gearing ratio (non-current liabilities over total shareholders' equity) was 0.12: 1, compared with that of 0.11: 1 at the beginning of the year.

Contingent liabilities and pledges

As at 31 December 2018, the Group pledged its assets of RMB114.03 million to secure loans for liquidity.

Exposure to fluctuations in exchange rate

Some of the deposits of the Group are denominated in foreign currencies. As at 31 December 2018, the amount of the Group's deposits in foreign currencies was equivalent to RMB722.76 million. The export business and businesses settled in foreign currencies expose the Group to exchange risk.

Use of fund-raising proceeds

The Company has fully utilized its proceeds from issuance of shares and bonds in previous years, and no other fund-raising activities was proceeded in this year.

Dividend

The Board dose not propose the payment of a final dividend for 2018.

SIGNIFICANT EVENTS AFFECTING THE GROUP

On 24 December 2018, the Board of Harbin Electric Corporation Co., Ltd. (“HE”) and the Board of the Company jointly announced that Citigroup Global Markets Asia Limited, on behalf of HE, firmly intends to make a voluntary conditional cash offer to acquire all the issued H Shares of the Company on the basis of HK\$4.56 per H Share.

In addition, on 24 December 2018, HE entered into the Merger Agreement with the Company. If the Merger is implemented and completed, the Company will be merged and absorbed by HE in accordance with Article 172 of the PRC Company Law and other applicable PRC Laws.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed to have received annual confirmation of independence from each independent non-executive director pursuant to Rule 3.13 of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), confirming all independent non-executive Directors are independent.

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

As of 31 December 2018, none of the directors, supervisors and senior management of the Company had any interest or short position in the shares, underlying shares and debentures (as the case may be) of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (SFO)) which was required to be notified to the Company and the Hong Kong Stock Exchange (including interest or short position which any such director, supervisor or senior management is taken or deemed to have under such provisions of the SFO) pursuant to the SFO or which was required to be recorded in the Register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As of 31 December 2018, there is no service contract specified in Rule 14 of Appendix 16 of the Listing Rules between directors and supervisors of the Company and the Company.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

As of 31 December 2018, none of the Directors or Supervisors has any interest, whether directly or indirectly, in the contracts of significance entered into by the Group.

CONTRACTS OF SIGNIFICANCE WITH THE CONTROLLING SHAREHOLDERS OR THEIR SUBSIDIARIES

As of 31 December 2018, save as the connected and continuing connected transactions entered into by the Group and HE as set out in “Report of the Directors” which will be included in annual report, no contract of significance was entered into between the Group and the controlling shareholders or their subsidiaries.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Remuneration of directors and supervisors of the Company was approved at the general meeting of the Company, in which executive directors, shareholder representative supervisors and employee supervisors will not receive any remuneration as directors and supervisors. The remuneration of independent non-executive directors and independent supervisors was determined with reference to remuneration of the relevant personnel of companies engaging in similar business or with similar scale as the Company. None of the directors waived or agreed to waive any remuneration.

The remuneration of the directors and supervisors of the Company as of 31 December 2018 is as follows:

(Unit: RMB)

	Fees	Wages and other benefits	Contribution to retirement benefits scheme	Total
Executive Directors				
Mr. Si Ze-fu	0	0	0	0
Mr. Wu Wei-zhang	0	618,530	96,499	715,029
Mr. Zhang Ying-jian	0	553,845	91,721	645,566
Mr. Song Shi-qi	0	550,130	89,741	639,871
	<hr/>	<hr/>	<hr/>	<hr/>
Total	0	1,722,505	277,961	2,000,466
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Fees	Wages and other benefits	Contribution to retirement benefits scheme	Total
Independent Non-Executive Directors				
Mr. Zhu Hong-jie	0	60,000	0	60,000
Mr. Yu Wen-xing	0	60,000	0	60,000
Mr. Hu Jian-min	0	60,000	0	60,000
Mr. Tian Min (appointed on 21 March 2018)	0	50,000	0	50,000
Total	0	230,000	0	230,000
Supervisors				
Mr. Feng Yong-qiang	0	31,020	7,478	38,498
Mr. Chen Guang	0	372,480	75,435	447,915
Mr. Zhu Peng-tao	0	198,764	40,589	239,353
Mr. Zhang Wen-ming	0	367,524	33,444	400,968
Mr. Zhang Jun-quan	0	405,479	58,162	463,641
Total	0	1,375,267	215,108	1,590,375

FIVE HIGHEST PAID PERSONNEL

As of 31 December 2018, the five highest paid personnel in the Company are all senior management of the Company and its subsidiaries, remuneration of whom was over HK\$1 million but below HK\$1.5 million.

	Fees	Wages and other benefits	Contribution to retirement benefits scheme	Total
Total remuneration of the five highest paid personnel	HK\$0	HK\$4.9815 million	HK\$0.9995 million	HK\$5.9810 million

CONTINGENT LIABILITIES – GUARANTEES

As of 31 December 2018, total internal guarantees in favour of the Group made by the Company and its subsidiaries amounted to RMB2,035.42 million. No external guarantee was provided.

PERMITTED INDEMNITY PROVISION

As provided by applicable laws, each director of the Company is entitled to be indemnified by respective companies for all costs, charges, losses, fees and liabilities which arise from or are connected to the execution and performance of their duties according to the Articles of Association of the Company. The provision becomes effective in the financial year ended 31 December 2018 and remains in effect as at the date of this report.

The Company purchased directors' liability insurance for all directors during the year.

SIGNIFICANT INVESTMENT IN SECURITIES

On 9 October 2018, the Company and HPI entered into the Agreement on the Subscription for Shares Issued Under Non-public Issue by Huaneng Power International, Inc., pursuant to which, the Company will subscribe for 76,335,877 ordinary shares (A shares) issued under the Non-public Issue by HPI at the subscription price of RMB6.55 per share (equivalent to approximately 90% of the average trading price of the A shares of HPI for 20 consecutive Trading Days before the Price Determination Date), with the total subscription amount of RMB499,999,994.35 (equivalent to approximately HK\$568,188,268.05). The Company undertook not to transfer the subscribed A shares of HPI within 12 months from the completion date of issue.

STAFF REMUNERATION, RETIREMENT AND BENEFITS SCHEME

In 2018, the Group continued to deepen its remuneration reform, and further increased the salary distribution to its production core staff, key positions with significant contribution and backbone persons, so as to make a better flexibility for the income distribution of our staff and promote their enthusiasm, initiative and creativity and also to realize income distribution matching with economic benefit growth and improvement of labor efficiency, with a view to establishing a harmonious income distribution relationship.

In 2018, the total salaries of the Group amounted to RMB1,639.78 million. The Group has no long-term award scheme for the time being.

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

As of 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or PRC laws, which would require the Company to offer new shares to existing shareholders according to their respective proportions of shareholding.

MAJOR LITIGATION

The Group had no major pending litigation in 2018.

MODEL CODE

The Company, having made specific enquiry to the Directors, confirms that all directors complied with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules throughout the period.

CORPORATE GOVERNANCE CODE

The Company has been actively enhancing the Company's corporate governing structure and standardized the Company's operations through strictly complying with relevant provisions such as the Company Law of the People's Republic of China and the Securities Law of the People's Republic of China. Directors of the Company strived to maintain corporate governance of high standard and believe quality governance is a key to the long-term success and sustainable development of the Company's business.

In 2018, the Company has complied with the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, details of which are set out in the section headed "Corporate Governance Report" in the annual report.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements, continuing connected transactions, internal control and risk management of the Group for the year ended 31 December 2018, and discussed with the Board the financial reporting procedures as well as the internal control system of the Group.

AUDITORS

The financial statement of the Company for the year ended 31 December 2018 has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP, which was appointed at the 2017 annual general meeting of the Company. Its annual remuneration for the year was RMB2.50 million. The auditor is eligible and willing to offer itself for re-appointment. The resolution to re-appoint the auditor and to authorise the Board to determine its remuneration will be proposed at the 2018 annual general meeting of the Company.

OUTLOOK

Despite the increasing demand for energy resources in China and worldwide, the business environment of power generation equipment manufacturers is becoming increasingly challenging with the increasing competition in the market and the increasing concern for power generation from clean and renewable generation instead of coal-fired power. In China, the proportion of total new coal-fired power capacity continued to decrease, and thermal power market continued to decline; in the meantime, hydropower generation maintains a moderate growth, while other mainstream renewable energy power generation modes, such as wind power and solar power, are expected to continue to seize the market share; the clean energy market is expected to maintain a rapid development; the international market still has room but competition will become more intensified.

In 2019, the Group will focus on its development strategy and promote high-quality development with reform and innovation as driving force. During the year, the Group will endeavor to seize the market share, decrease the “account receivables and inventory”, cut off costs, reduce redundancies and improve quality in order to strengthen the foundation for development; will implement the industrial layout, enhance technological innovation, enlarge power station service industry, develop new industries and solve the key development; will promote the reform of allocation, optimize the assessment system, improve the management and control models and strengthen the development impetuses; will strive to build itself into a world-class equipment manufacturing enterprise with global competitiveness.

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

Harbin, PRC, 7 March 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.