

INTERIM REPORT 2018



哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

Stock Code: 1133

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2018 INTERIM REPORT OF THE DIRECTORS

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

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

The currency mentioned in this report was Renminbi.

INDUSTRY DEVELOPMENT AND BUSINESS REVIEW

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

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

OPERATING RESULTS

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

NEW CONTRACTS

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

PRODUCTION AND SERVICES

The capacity of the Group's power equipment produced during the six months ended 30 June 2018 was 7,589 MW, representing a decrease of 18.26% as compared with the same period last year, and among which 6 water turbine generators generated a total of 1,039 MW, representing a decrease of 19.71% as compared with the same period last year; 17 steam turbine generators generated a total of 6,650 MW, representing a decrease of 18.02% as compared with the same period last year; 12 utility boilers for power stations generated a total of 6,440 MW, representing a decrease of 33.51% as compared with the same period last year; and 9 steam turbines for power stations generated a total of 3,152 MW, representing a decrease of 52.96% as compared with the same period last year. The decrease in production capacity of different kinds of products as compared with the same period last year was mainly attributable to a declining tendency in production volume caused by a decrease in market demand.

OPERATING REVENUE AND COST

For the six months ended 30 June 2018, the Group recorded an operating revenue of RMB12,731.94 million, representing a decrease of 24.12% as compared with the same period last year. In particular, operating revenue of main thermal power equipment was RMB6,246.77 million, representing a decrease of 9.12% as compared with the same period last year. Operating revenue of nuclear power equipment was RMB574.95 million, representing a decrease of 27.63% as compared with the same period last year. Operating revenue of main hydropower equipment was RMB771.88 million, representing an increase of 26.84% as compared with the same period last year. Operating revenue of engineering services for power stations was RMB3,812.80 million, representing a decrease of 43.31% as compared with the same period last year. Operating revenue of ancillary equipment for power stations was RMB265.19 million, representing a decrease of 64.72% as compared with the same period last year. Operating revenue of AC/DC motors and other products and services was RMB1,060.34 million, representing an increase of 3.50% as compared with the same period last year. During the period, the decrease in the operating revenue of the Group was mainly attributable to less revenue recognition from the newly contracted projects of power station engineering service segment in the early stage of construction and a decrease in the production volume of power generation equipment.

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

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

GROSS PROFIT AND GROSS PROFIT MARGIN

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

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

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

EXPENSES FOR THE PERIOD

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

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

ASSETS AND LIABILITIES

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

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

CAPITAL AND GEARING RATIO

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

MONETARY CAPITAL AND CASH FLOWS

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

FUNDING AND BORROWINGS

The Group currently has three funding sources for operation and development, namely shareholder's funds, trade receivables from customers and bank borrowings. The Group arranges borrowings for each specific project. Except for some special situations, loans will be raised individually by the Group's subsidiaries. However, prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 30 June 2018, the

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

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

For the six months ended 30 June 2018, the Group had made fixed assets investments of RMB199.49 million, which mainly were utilized for the technology upgrading project for core capacity of nuclear pump motor units of Harbin Turbine Company Limited and the manufacturing base improvement project for main nuclear pump motor units of Harbin Electric Power Equipment Company Limited. The first two were technological transformation projects designed for nuclear power products, which could satisfy the needs of the Group's nuclear power technology development, improve the core manufacturing capacity of nuclear power products and break through the bottleneck of manufacturing main equipment and key components of nuclear power conventional islands; at present, part of the plants have been put into operation.

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

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

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

TAX POLICIES

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

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

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

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

NEW PRODUCTS AND NEW INDUSTRIES

In the first half of 2018, the Group continued to implement the national structural reform on the supply side, pushed forward the adjustment of industrial structure and the development of new industries such as wind power generation and photo-thermal power generation, channeled greater energy to expand the marine power field, and also strengthened more efforts in R&D in the fields like water treatment, biomass coupling, garbage power generation, island multi-energy complementation and high-end valves, to speed up the development process of new industries.

EMPLOYEES, REMUNERATION, STOCK OPTION PLAN AND TRAINING

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

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

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

INTERIM DIVIDEND

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

PROSPECTS

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

SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN SHARE CAPITAL

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

Long positions in the shares of the Company:

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

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

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

COMPLIANCE WITH THE MODEL CODE

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

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

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

CONTINGENT LIABILITIES

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

PLEDGE OF ASSETS

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is currently and had been at all times during the accounting period in compliance with the rules set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules, and, where appropriate, has adopted the recommended best practices as specified therein. As of 31 December 2017, the Board of the Company had a shortage of an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise, and independent non-executive Directors were not the majority among the members of the Nomination Committee under the Board. On 21 March 2018, the Board of the Company appointed Mr. Tian Min as an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee of the Board. The Board has an addition of independent non-executive Director with appropriate accounting expertise, and independent non-executive Directors were the majority among the members of the Nomination Committee under the Board.

THE AUDIT COMMITTEE

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

AUDITORS

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

SHAREHOLDERS' MEETING

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

OTHER DISCLOSEABLE INFORMATION

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

DOCUMENTS AVAILABLE FOR INSPECTION

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

REVIEW REPORT

PCPAR [2018] NO. ZE10858

To the Shareholders of Harbin Electric Company Limited:

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

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

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

BDO China Shu Lun Pan

Certified Public Accountants LLP. YONGBO CHEN

Certified Public Accountant of China:

**Certified Public Accountant of China:
QINGSONG CHEN**

Shanghai, China

Date: 28 August 2018

CONSOLIDATION BALANCE SHEET

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

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

CONSOLIDATION BALANCE SHEET (CONTINUED)

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

CONSOLIDATION BALANCE SHEET (CONTINUED)

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

CONSOLIDATION BALANCE SHEET (CONTINUED)

Liabilities and shareholders' equity	<i>Notes</i>	June 30, 2018	December 31, 2017
Non-current liabilities:			
Long-term borrowings		500,000,000.00	200,000,000.00
Bonds payable including: preferred stocks perpetual debts			
Long-term payables		485,953,994.29	485,953,994.29
Long-term employee compensation payable		141,039,180.93	141,039,180.93
Estimated liabilities		574,964,304.08	631,358,782.54
Deferred income		155,982,266.09	154,756,614.71
Deferred income tax liabilities			7,280,974.79
Other non-current liabilities including: special reserve fund			
TOTAL NON-CURRENT LIABILITIES		1,857,939,745.39	1,620,389,547.26
TOTAL LIABILITIES		40,301,985,417.71	48,695,941,394.36

CONSOLIDATION BALANCE SHEET (CONTINUED)

Liabilities and shareholders' equity	Notes	June 30, 2018	December 31, 2017
Owners' (Shareholders') equity:			
Paid-in capital (or share capital)	V (XI)	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			
Net balance of paid-in capital		1,706,523,000.00	1,706,523,000.00
Other equity instruments			
Including: Preferred stock			
Perpetual debts			
Capital reserve		3,704,487,494.12	3,690,197,230.17
Less: Treasury stock			
Other comprehensive income		-190,451.03	18,514,209.22
Including: Converted difference in foreign			
currency statements		148,504.77	-691,329.32
Special reserve		26,115,497.27	19,377,426.96
Surplus reserve		786,529,945.86	786,529,945.86
including: statutory reserves		786,529,945.86	786,529,945.86
discretionary accumulation			
reserve funds			
enterprise expansion funds			
profits capitalized on return of			
investments			
△ Provision for normal risks			
Undistributed profits		8,680,839,288.58	8,649,609,089.09
Total equity attributable to owners of the parent company		14,904,304,774.80	14,870,750,901.30
Minority equity		1,285,482,931.17	1,271,400,777.32
TOTAL OWNERS' (SHAREHOLDERS') EQUITY		16,189,787,705.97	16,142,151,678.62
TOTAL LIABILITIES AND OWNERS' (SHAREHOLDERS') EQUITY		56,491,773,123.68	64,838,093,072.98

Legal representative:

Chief Accounting Officer:

Accounting agency head:

CONSOLIDATED INCOME STATEMENT

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

Item	Notes	January to June 2018	January to June 2017
I. Total operating income		12,978,747,387.39	16,976,905,559.55
Including: Operating income	V (XVII)	12,731,936,330.66	16,778,045,409.53
△ Interest income		246,772,517.95	198,855,999.08
△ Earned premiums			
△ Income from handling charges and commissions		38,538.78	4,150.94
II. Total operating cost		12,842,227,104.72	16,706,670,462.24
Including: Operating cost	V (XVII)	11,216,343,737.26	14,668,840,254.36
△ Interest expenses		6,230,313.71	12,918,952.95
△ Handling charges and commissions expenses		10,337.62	8,393.88
△ Refund of insurance premiums			
△ Net payments for insurance claims			
△ Net amount withdrawn for insurance contract reserves			
△ Commissions on insurance policies			
△ Cession charges			
Taxes and surcharges		101,237,278.86	76,606,057.62
Selling expenses		237,364,912.58	246,380,167.72
General and administrative expenses including: Party construction work funds	V (XVIII)	757,860,374.13	823,781,461.39
Research and development expenses		20,746.83	
Financial expenses		137,705,140.13	111,637,505.77
Including: interest expense		65,222,739.57	168,742,077.55
Interest income		86,412,707.43	116,904,853.63
Gain or loss on foreign exchange transactions ("-" for gains)		29,402,604.12	21,616,412.94
Impairment loss on assets	V (XIV)	3,959,921.87	58,995,702.41
Impairment loss on credits	V (XV)	320,252,270.86	597,755,591.00
Others			

CONSOLIDATED INCOME STATEMENT (CONTINUED)

Item	Notes	January to June 2018	January to June 2017
Plus: Other income		4,061,461.07	3,369,003.80
Investment income ("-" for losses)		42,539,960.96	38,315,566.76
Including: Income from investment in associates and joint ventures		429,708.77	20,089,218.32
Net exposure hedging returns ("-" for losses)			
Gains from the changes in fair value ("-" for losses)			-2,484,906.61
Asset disposal income ("-" for losses)		317,323.85	1,350,739.32
△Gains from foreign exchange ("-" for losses)		-1,003.45	203.78
III. Operating profits ("-" for losses)		183,438,025.10	310,785,704.36
Plus: Non-operating income		22,413,873.87	10,104,971.36
including: Gains from disposal of non- current assets		2,088,940.04	1,420,949.40
Gains from exchange of non- monetary assets			
Government grant income		4,534,605.91	6,664,120.88
Gains from debt restructuring			
Less: Non-operating expenses		61,084,827.05	96,826,582.11
Including: Losses from disposal of non- current assets		1,336,090.76	613,601.40
Losses from exchange of non-monetary assets			
Losses from debt restructuring			

CONSOLIDATED INCOME STATEMENT (CONTINUED)

Item	Notes	January to June 2018	January to June 2017
IV. Total profits (“-” for total losses)		144,767,071.92	224,064,093.61
Less: Income tax expenses		78,533,914.49	75,966,190.39
V. Net profit (“-” for net losses)		66,233,157.43	148,097,903.22
(1) Classification according to the continuity of operation			
1. Net profit for continuing operations (“-” for losses)		66,233,157.43	148,097,903.22
2. Termination of operating net profit (“-” for losses)			
(2) Classification by ownership			
1. Net profit attributable to shareholders of the parent company		30,768,718.70	124,593,624.45
2. Minority shareholder gains and losses		35,464,438.73	23,504,278.77
VI. Other comprehensive income, net of tax		839,834.09	453,607.53
Net after-tax of other comprehensive income attributable to the parent company owner		839,834.09	453,607.53
(1) Other comprehensive income that cannot be reclassified into profit or loss			
1. Re-measure the change in the defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instruments investment			
4. Changes in the fair value of the company's own credit risk			

CONSOLIDATED INCOME STATEMENT (CONTINUED)

Item	Notes	January to June 2018	January to June 2017
(2) Other comprehensive income that will be reclassified into profit or loss		839,834.09	453,607.53
1. Other comprehensive income of convertible profits and losses under the equity method			
2. Gains and losses from changes in fair value of available-for-sale financial assets			
3. Held-to-maturity investments are reclassified as gains and losses on available-for-sale financial assets			
4. Changes in fair value of other debt investments			
5. The amount of financial assets reclassified into other comprehensive income			
6. Other debt investment credit impairment provisions			
7. Cash flow hedge reserve			2,112,170.62
8. Foreign currency financial statement translation difference		839,834.09	-1,658,563.09
9. Others			
Net after-tax of other comprehensive income attributable to minority shareholders			
VII. Total comprehensive income		67,072,991.52	148,551,510.75
Total comprehensive income attributable to owners of the parent company		31,608,552.79	125,047,231.98
Total comprehensive income attributable to minority shareholders		35,464,438.73	23,504,278.77
VIII. Earnings per share :			
Basic earnings per share (<i>yuan per share</i>)	<i>V (XVIII)</i>	0.02	0.09
Diluted earnings per share (<i>yuan per share</i>)	<i>V (XVIII)</i>	0.02	0.09

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

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

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

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

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

Legal representative:

Chief Accounting Officer:

Accounting agency head:

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (CONTINUED)

Item	January to June 2018													
	Equity attributable to owners of the parent company													
	Paid-in capital (or share capital)	Perpetual capital securities	Preferred stocks securities	Other capital securities	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserves	Δ(General) risk reserves	Unistributed profits	Others	Subtotal	Minority equity	Total owners equity
(5) Internal carry-forward of owners' equity														
1. Conversion of capital reserves into paid-in capital (or share capital)														
2. Conversion of surplus reserves into paid-in capital (or share capital)														
3. Surplus reserves offsetting losses 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				3,704,487,841.2		-190,851.03	-26,115,407.27	786,529,945.86	8,630,319,238.58	14,804,304,774.80	1,285,482,431.17	16,087,777,65.97	

Legal representative:

Chief Accounting Officer:

Accounting agency head:

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY (CONTINUED)

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

Item	January to June 2017										Total owners' equity
	Equity attributable to owners of the parent company										
	Paid-in capital (or share capital)		Other equity instrument			Equity attributable to owners of the parent company			Subtotal		
Preferred stocks	Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserves	General risk reserves	Unsubscribed profits	Others			
I. Balance at the end of the last year	1,376,806,000.00	2,764,202,460.41		-6,838,794.70	15,801,148.88	786,529,946.86	8,436,886,529.09	13,433,080,309.54	1,203,321,465.94	14,636,414,765.48	
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	1,376,806,000.00	2,764,202,460.41		-6,838,794.70	15,801,148.88	786,529,946.86	8,436,886,529.09	13,433,080,309.54	1,203,321,465.94	14,636,414,765.48	
III. Increases/decreases in the current period ("+" for increases)				453,807.53	4,635,461.54		83,289,444.45	88,378,503.52	21,415,081.05	109,793,584.57	
(1) Total comprehensive income				453,807.53	4,635,461.54		126,533,524.45	125,047,231.98	23,504,273.77	149,551,510.75	
(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					4,635,461.54						
1. Erection of special reserves					11,463,647.86						
2. Use of special reserves					-6,828,186.32						
(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)

January to June 2017

Item	Equity attributable to owners of the parent company										Total owners equity	
	Paid-in capital (or share capital)	Preferred stocks (or share capital)	Other equity instrument	Less: Treasury stock	Other comprehensive income	Secal reserves	Surplus reserves	Δ General risk reserves	Undistributed profits	Others		Subtotal
(5) Internal carry-forward of owners' equity												
1. Conversion of capital reserves into paid-in capital (or share capital)												
2. Conversion of surplus reserves into paid-in capital (or share capital)												
3. Surplus reserves offsetting losses in net liabilities or net issues of defined benefit plans												
4. Transfer remeasurement changes in net liabilities or net issues 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	1,370,806,000.00		2,764,208,460.41		-6,485,887.17	20,426,600.42	786,529,946.96	8,579,975,973.54	13,327,471,813.06	1,207,796,526.99	14,752,208,340.05	

Legal representative:

Chief Accounting Officer:

Accounting agency head:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended on 30 June 2018

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

I. BASIC INFORMATION ABOUT THE COMPANY

(I) Company profile

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

Parent and ultimate controller of the Company: Harbin Electric Corporation

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

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(I) Basis of preparation

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

(II) Going concern

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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

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

Recognition of receivables that are subject to provision by groups based on the credit risk characteristics

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

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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

Aging	Provision ratios for accounts Receivable (%)	Provision ratios for other Receivables (%)
Within 1 year (including 1 year)	0-5	0-5
1 to 2 years	5-25	5-25
2 to 3 years	50	50
3 to 4 years	80	80
4 to 5 years	80	80
Over 5 years	100	100

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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

Accounts receivable not provided for bad debt:

- A. Accounts receivable between related parties.
 - B. For organisations such as the competent department for the relevant industry, industry associations, accounts receivable in guarantee and deposit nature. For internal department of enterprises or incurred by existing employees for the operating of business, accounts receivable in borrowing and reserve nature. Except there is evidence of impairment, no provision for impairment is required for the above accounts receivable.
- (I) Statement of compliance with corporate accounting standards

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(II) Accounting period

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

(III) Operating Cycle

The company's operating cycle is 12 months.

(IV) Reporting currency

The company uses RMB as the bookkeeping base currency.

(V) Principle of measurement

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

(VI) Changes in important accounting policies and accounting estimates

1. *Important accounting policy changes*

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. *Important accounting policy changes (Continued)*

(1) (Continued)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. Important accounting policy changes (Continued)

(1) (Continued)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. *Important accounting policy changes (Continued)*

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. *Important accounting policy changes (Continued)*

(2) (Continued)

Content and reasons

for changes in
accounting policies

Affected report
item name

Affected amount

Add contract assets
and contract
liabilities to the
balance sheet.

Inventory, contract
assets, advance
receipts, contract
liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. *Important accounting policy changes (Continued)*

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

Content and reasons for changes

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. *Important accounting policy changes (Continued)*

(3) (Continued)

Content and reasons for changes

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. Important accounting policy changes (Continued)

(3) (Continued)

Content and reasons for changes

in accounting policies

Affected report item name

Affected amount

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. *Important accounting policy changes (Continued)*

(3) (Continued)

Content and reasons for changes in accounting policies

Affected report item name Affected amount

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

None.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

IV. TAXATION

(I) Main types of taxes and tax rates

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

IV. TAXATION (CONTINUED)

(II) Tax incentives

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

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

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

(III) Hong Kong profits tax

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

IV. TAXATION (CONTINUED)

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

- (I) Notes receivable and accounts receivable

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes receivable and accounts receivable (Continued)

1. Notes receivable

(1) Classified by types of notes receivable

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

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

2. Accounts receivable

(1) Disclosure by types of accounts receivable

Type	30 June 2018					31 December 2017				
	Remaining carrying amount		Provision for bad debt			Remaining carrying amount		Provision for bad debt		
	Amount	Ratio (%)	Amount	Provided Ratio (%)	Carrying Value	Amount	Ratio (%)	Amount	Provided Ratio (%)	Carrying Value
Accounts receivable which are individually significant and provided for bad debt separately	525,874,869.65	3.01	428,258,100.48	81.47	97,406,769.17	583,116,164.56	3.59	453,326,138.19	77.74	129,790,026.37
Accounts receivable provided for bad debt by credit risk characteristics	16,778,412,925.99	95.90	5,376,939,272.04	32.05	11,401,503,653.92	15,432,487,914.00	95.13	5,052,389,089.88	32.74	10,380,098,814.12
Accounts receivable which are individually not significant but provided for bad debt separately	190,545,534.28	1.09	160,557,566.25	84.14	30,287,968.03	206,917,017.25	1.28	128,219,569.60	61.97	78,697,447.65
Total	17,495,033,429.99	/	5,965,835,038.77	/	11,529,198,991.12	16,222,531,095.81	/	5,633,944,807.67	/	10,588,586,288.14

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes receivable and accounts receivable (Continued)

2. Accounts receivable (Continued)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes receivable and accounts receivable (Continued)

2. Accounts receivable (Continued)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Advances to suppliers

Advances to suppliers are listed by age

Age	30 June 2018			31 December 2017		
	Book balance	Ratio (%)	Bad debt provision	Book balance	Ratio (%)	Bad debt provision
Within 1 year	2,168,242,905.30	54.58		4,033,563,401.69	74.72	
1-2 years	1,080,302,613.21	27.19		746,833,483.66	13.83	279,869.02
2-3 years	306,511,790.60	7.72	279,869.02	357,438,347.29	6.62	279,905.13
Over 3 years	417,738,709.44	10.51	8,164,090.81	260,459,984.07	4.83	7,884,185.68
Total	3,972,796,018.55	100.00	8,443,959.83	5,398,295,216.71	100.00	8,443,959.83

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Other receivables

Item	30 June 2018	31 December 2017
Interests receivable	6,881,652.96	3,277,397.20
Dividends receivable	144,453.39	144,453.39
Other receivables	1,023,128,955.42	953,565,790.29
Total	1,030,155,061.77	956,987,640.88

1. Interests receivable

Item	30 June 2018	31 December 2017
Fixed deposit	6,881,652.96	2,096,712.27
Bond investment		1,180,684.93
Total	6,881,652.96	3,277,397.20

2. Dividends receivable

Item	30 June 2018	31 December 2017
Harbin Dongli Real Estate Development Co., Ltd.	144,453.39	144,453.39
Total	144,453.39	144,453.39

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Other receivables (Continued)

3. Other receivables

(1) Disclosure of other receivables classified by type:

Type	30 June 2018				31 December 2017					
	Book balance		Bad debt provision		Carrying Value	Book balance		Bad debt provision		Carrying Value
	Amount	Ratio (%)	Amount	Provided ratio (%)		Amount	Ratio (%)	Amount	Provided ratio (%)	
Other receivables which are individually significant and provided for bad debt separately	511,744,619.90	40.51	32,481,117.58	6.35	478,263,502.32	553,432,092.48	45.78	24,513,082.20	4.43	528,919,010.28
Other receivables provided for bad debt by credit risk characteristics	283,932,099.34	22.48	197,733,863.96	69.64	86,198,235.38	260,950,334.75	21.58	204,569,685.20	78.39	56,380,639.55
Other receivables which are individually not significant but provided for bad debt separately	487,557,990.35	37.01	9,890,772.64	2.12	457,657,217.72	394,585,307.53	32.64	26,319,167.07	6.67	368,266,140.46
Total	1,263,234,709.60	/	240,105,754.18	/	1,023,128,955.42	1,208,967,734.76	/	255,401,944.47	/	953,565,790.29

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

Other receivables (By Unit)	30 June 2018			Reasons for provision
	Other receivables	Provision for bad debt	Provided ratio (%)	
CELECT, etc	511,744,619.90	32,481,117.58	6.35	/
Total	511,744,619.90	32,481,117.58	6.35	/

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Other receivables (Continued)

3. Other receivables (Continued)

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

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

Other receivables (By Unit)	30 June 2018		
	Other receivables	Provision for bad debt	Reasons for provision (%)
Reserve money, etc.	467,557,990.36	9,890,772.64	2.12 /
Total	467,557,990.36	9,890,772.64	2.12 /

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Other receivables (Continued)

3. Other receivables (Continued)

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

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

Age	30 June 2018			31 December 2017		
	Other receivables	Provision for bad debt	Provided ratio (%)	Other receivables	Provision for bad debt	Provided ratio (%)
Within 1 year	73,817,719.39	3,683,724.08	5.00	49,738,479.97	2,486,866.91	5.00
1-2years	8,598,075.63	2,146,676.35	24.97	2,392,280.13	595,243.75	24.88
2-3years	1,345,833.28	669,373.77	49.74	104,718.50	52,359.25	50.00
3-4years	24,722,652.42	19,778,121.93	80.00	23,298,484.26	18,638,787.41	80.00
4-5years	19,959,253.97	15,967,403.18	80.00	13,099,670.06	10,479,736.05	80.00
Over 5 years	155,488,564.65	155,488,564.65	100.00	172,316,701.83	172,316,701.83	100.00
Total	283,932,099.34	197,733,863.96		260,950,334.75	204,569,695.20	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Other receivables (Continued)

3. Other receivables (Continued)

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

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

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

(IV) Other current assets

Item	30 June 2018	31 December 2017
Bank financial products	1,730,000,000.00	2,538,636,621.75
Entrusted loans	293,000,000.00	200,000,000.00
Input tax and prepaid VAT to be deducted	654,121,050.53	270,993,438.53
Others		
Total	2,677,121,050.53	3,009,630,060.28

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

- (VI) Short-term borrowings

1. Type of short-term borrowings

Item	30 June 2018	31 December 2017
Mortgage loan	15,900,000.00	15,900,000.00
Guaranteed loan		330,000,000.00
Credit loan	1,366,723,534.19	2,737,668,542.78
Total	1,382,623,534.19	3,083,568,542.78

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(VI) Short-term borrowings (Continued)

2. Mortgage loan

Creditor	30 June 2018	31 December 2017
Chengdu Rural Commercial Bank Co., Ltd	15,900,000.00	15,900,000.00
Total	15,900,000.00	15,900,000.00

(VII) Notes payable and accounts payable

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(VII) Notes payable and accounts payable (Continued)

1. Notes payable

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

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

2. Accounts payable

List of accounts payable

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIII) Other current liabilities

Item	30 June 2018	31 December 2017
Other	170,173.80	134,893.80
Total	170,173.80	134,893.80

(IX) Non-current liabilities due within one year

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

Item	30 June 2018	31 December 2017
Long-term borrowings due within one year		
Bonds payable due within one year		2,999,707,500.00
Long-term payables within one year		
Total		2,999,707,500.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(X) Financial leasing

1. *Fixed assets leased through finance leases*

None.

2. *Financial lease payable*

None.

(XI) Share capital

Name of shareholders	31 December 2017	Changes during the period (increase(+), decrease (-))				Sub-total	30 June 2018
		Capital increase	Bonus share	Conversion of the accumulation funds into shares	Conversion of the undistributed profit into shares		
Harbin Electric Corporation	1,030,952,000.00					1,030,952,000.00	
Overseas-listed shares	675,571,000.00					675,571,000.00	
Total	1,706,523,000.00					1,706,523,000.00	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XII) Incomes and division's documents

1. *Basis of reporting division and accounting policy*

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

2. Financial information of divisions

(1) Assets, liabilities and income 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 2018							
Reportable assets of divisions	40,483,693,204.38	5,149,103,719.14	5,089,545,391.45	1,296,620,861.53	6,479,862,663.44	5,847,905,479.86	64,346,731,339.80
Reportable liabilities of divisions	32,350,696,595.03	2,984,650,213.72	4,614,239,720.00	941,000,117.50	4,765,278,967.89	4,733,712,153.06	50,389,577,767.20
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	975,575,428.03	79,900,909.81	18,213,361.36	49,683,585.68	102,838,375.32	329,171,139.67	1,555,382,799.87

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

2. Financial information of divisions (Continued)

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

Items	Thermal power host devices	Water and electricity host devices	Plant engineering services	Power plant auxiliary and supporting products	nuclear power products division	Ac/dc motors and others	Total
31 December 2017							
Reportable assets of divisions	41,212,539,999.63	4,621,011,351.10	6,651,596,866.48	3,020,134,669.35	8,114,465,554.50	6,562,095,472.16	70,201,843,933.22
Reportable liabilities of divisions	34,634,317,661.74	2,229,206,421.05	5,884,095,242.01	2,316,900,005.18	6,304,818,582.81	4,993,809,765.82	56,363,147,678.61
January to June 2017							
Revenue of divisions							
External customer	6,873,286,545.93	608,525,656.18	6,725,575,156.17	751,690,250.97	794,447,194.83	1,024,520,605.45	16,778,045,409.53
Internal customer	1,203,036,164.61		-141,400,613.00			9,460,770.84	1,071,156,322.45
Reportable revenue of divisions	8,076,382,710.54	608,525,656.18	6,584,174,543.17	751,690,250.97	794,447,194.83	1,033,981,376.29	17,849,201,731.98
Reportable revenue of gross profit	1,337,062,213.85	104,190,663.00	236,059,946.36	32,619,781.77	181,555,253.96	210,515,977.78	2,102,003,836.72

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

2. Financial information of divisions (Continued)

(2) Assets, revenue and liabilities of divisions

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

2. Financial information of divisions (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

2. Financial information of divisions (Continued)

(3) Regional information

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

(XIII) Administrative expenses

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIV) Impairment on assets

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

(XV) Impairment on credits

Item	January to June in 2018	January to June in 2017
Bad debt loss	321,724,211.70	
Contract assets impairment losses	-1,736,378.11	
Loan impairment losses	264,437.27	
Total	320,252,270.86	

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XVI) Profit before tax and amortization depreciation

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

(XVII) Dividend

Item	January to June in 2018	January to June in 2017
Dividend of per share RMB0.015 at the 2017 closing balance	25,597,845.00	
Dividend of per share RMB0.03 at the 2016 closing balance		41,304,180.00
Total	25,597,845.00	41,304,180.00

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXIII) Earnings per share

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIX) Assets with restricted ownership or use rights

Restricted assets of ownership category	31 December 2017	Increase	Decrease	30 June 2018
I. Assets for collateral				
1. Fixed assets (buildings and plants)	90,371,372.40		381,690.34	89,989,682.06
2. Intangible assets (land right to use)	31,389,048.73		1,889,396.90	29,499,651.83
3. Fixed assets(machinery equipments)				
II. Restricted assets of ownership or use caused by other reasons				
including: monetary funds	958,947,389.47		264,606,416.79	694,340,972.68
Total	1,080,707,810.60		266,877,504.03	813,830,306.57

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Connected transactions

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

1. *Continuing connected transactions*

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Connected transactions (Continued)

1. Continuing connected transactions (Continued)

(1) Products and services transactions

Related parties	January to June in 2018	January to June in 2017
Sales of goods – company under common control		4,913,971.87
Procurement of goods – company under common control	8,333,907.74	35,659,138.82
Service fee income – holding company		
Service fee expenses – company under common control	25,176,674.43	26,745,249.12

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Connected transactions (Continued)

1. Continuing connected transactions (Continued)

(2) Interests to be paid for absorbing deposits

Related parties	January to June in 2018	January to June in 2017
Holding company	4,904,567.51	9,152,857.43
Company under common control	567,390.32	565,548.95
Total	5,471,957.83	9,718,406.38

(3) Interest income from loans and discounted bills

Related parties	January to June in 2018	January to June in 2017
Company under common control	13,719.83	4,887.43
Total	13,719.83	4,887.43

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Connected transactions (Continued)

1. Continuing connected transactions (Continued)

(4) Fee and commission income

Related parties	January to June in 2018	January to June in 2017
Company under common control	5,106.75	
Total	5,106.75	

(5) Entrusted loan interest income

Related parties	January to June in 2018	January to June in 2017
Company under common control	3,900,210.00	3,776,498.00
Total	3,900,210.00	3,776,498.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Connected transactions (Continued)

1. Continuing connected transactions (Continued)

(6) Consignment management fees

Related parties	Content of related party	January to June in 2018	January to June in 2017
Harbin Electric Group Co., Ltd.	Commissioned agency fees	1,640,000.00	1,640,000.00
Total		1,640,000.00	1,640,000.00

(7) Remuneration of key management

Item	January to June in 2018	January to June in 2017
Remuneration of key management	2,307,118.48	1,655,915.19

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Receivables from and payable to related parties

1. Receivable items

Items	Related parties	30 June 2018		31 December 2017	
		Remaining carrying amount	Provision for bad debt	Remaining carrying amount	Provision for bad debt
Accounts receivable	Company under common control	54,134.00		40,000.00	
Prepayments	Company under common control	50,098,006.65		41,819,778.65	
	Joint venture	320,780.00			
Other receivables	Holding company	163,735,125.59		162,095,125.59	
	Company under common control	75,818,144.08		71,319,538.25	
	Joint venture	182,517.07		469,681.72	
Interests receivable	Company under common control	3,900,210.00		239,250.00	
Other current assets	Company under common control	193,000,000.00			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

2. Payable items

Items	Related parties	Remaining carrying amount	
		30 June 2018	31 December 2017
Short-term borrowings	Holding company	1,078,073,270.62	
Absorbed deposits	Holding company	1,454,425,063.48	643,164,117.73
	Company under common control	107,807,733.08	158,966,485.09
	Joint venture	899,789.24	897,146.87
Accounts payable	Holding company		
	Company under common control	28,183,323.50	33,857,045.86
	Joint venture	7,924,633.02	2,686,460.92
Notes payable	Holding company	8,484,251.60	8,820,251.60
	Company under common control	247,459.07	2,105,182.07
Long-term payables	Holding company	3,500,00.00	3,500,00.00
Interests payable	Holding company		4,086,954.84
	Company under common control		183,786.35

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(III) Commitments of related parties

None.

(IV) Guarantee of related parties

None.

VII. SHARE-BASED PAYMENT

None.

VIII. COMMITMENTS AND CONTINGENCIES

(1) Important commitments

1. *Capital commitments*

Unit: ten thousand RMB

	30 June 2018	31 December 2017
Having been signed but not yet recognized in the financial statements – Commitment to purchase long-term assets	18,602.08	14,372.11

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(2) Contingencies

1. Guarantees within and outside the group

Number	Guarantee company	Company guaranteed				Ways of counter-guarantee	Amounts of actual guarantee	Including: Current amounts added this year	Current condition of company guaranteed	Whether being overdue	Whether sued
		Name	Nature of company	Ways of guarantee	Kinds of guarantee						
		Total (to the company within the group)					2,164,743,108.05	901,776,157.83			
1	Harbin Electric Machinery Co., Ltd.	Harbin Steam Turbine Factory Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	330,000,000.00		Normal operation	None	None
2	Harbin Electric Machinery Co., Ltd.	Harbin Electric Machinery Factory (Zhenjiang) Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	130,000,000.00		Normal operation	None	None
3	Harbin Steam Turbine Factory Co., Ltd.	Harbin Boiler Factory Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	174,870,800.00	14,716,200.00	Normal operation	None	None
4	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	67,957,500.00		Normal operation	None	None
5	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	149,838,000.00		Normal operation	None	None
6	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	168,810,700.58		Normal operation	None	None
7	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	20,257,284.10		Normal operation	None	None
8	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	78,640,992.30		Normal operation	None	None
9	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	19,660,248.02		Normal operation	None	None
10	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	19,660,248.02		Normal operation	None	None
11	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	107,748,784.19		Normal operation	None	None
12	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	555,088,959.54	555,088,959.54	Normal operation	None	None

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2018

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

VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(2) Contingencies (Continued)

1. Guarantees within and outside the group (Continued)

Number	Guarantee company	Company guaranteed Name	Nature of company	Ways of guarantee	Kinds of guarantee	Ways of counter- guarantee	Amounts of actual guarantee	Including: Current guarantee added of company this year	Current condition of company guaranteed	Whether being overdue	Whether being sued
13	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	10,042,350.30	10,042,350.30	Normal operation	None	None
14	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	7,461,382.53	7,461,382.53	Normal operation	None	None
15	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-owned enterprises	Joint responsibility	Other guarantee	No counter guarantee	314,467,265.46	314,467,265.46	Normal operation	None	None
16	Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	Harbin Electric Power Equipment Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	4,290,000.00		Normal operation	None	None
17	Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	Harbin Electric Power Equipment Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	5,220,852.00		Normal operation	None	None
18	Harbin Electric Power Group Harbin Power Station Valve Co., Ltd.	Harbin Electric Power Equipment Co., Ltd.	State-owned enterprises	Joint responsibility	Performance guarantee	No counter guarantee	727,741.00		Normal operation	None	None

2. Significant pending litigation

None.

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

IX. MATTERS AFTER THE BALANCE SHEET DATE

None.

Harbin Electric Company Limited
August 28, 2018

INFORMATION ON THE COMPANY

REGISTERED NAME OF THE COMPANY

哈爾濱電氣股份有限公司

ENGLISH NAME OF THE COMPANY

Harbin Electric Company Limited

REGISTERED ADDRESS OF THE COMPANY

Block 3
Nangang District High Technology
Production Base
Harbin
Heilongjiang Province
People's Republic of China
Taxpayer's Identification Number:
91230100127575573H

OFFICE ADDRESS OF THE COMPANY

1399 Chuangxinyi Road
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Mr. Si Ze-fu

AUTHORISED REPRESENTATIVES

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

COMPANY SECRETARY

Mr. Ai Li-song

JOINT COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael

AUDITORS

BDO China Shu Lun Pan
Certified Public Accountants LLP

LEGAL ADVISORS

as to PRC Law

Haiwen Partners

LISTING INFORMATION

H Shares

The Stock Exchange of Hong Kong Limited

Stock Code: 1133

DEPOSITARY

The Bank of New York

SHARE REGISTER AND TRANSFER OFFICE

Hong Kong Registrars Limited