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哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

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

(Stock Code: 1133)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the announcement of Harbin Electric Company Limited (the “**Company**”) dated 27 March 2020 in relation to the unaudited annual results of the Company and its subsidiaries for the year ended 31 December 2019 (the “**Unaudited Annual Results**”).

The Company’s auditor Da Hua Certified Public Accountants (Special General Partnership) has audited the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2019, and there are no significant adjustments to the annual results for the year 2019 set out in Unaudited Annual Results.

The Board of Directors (the “**Board**”) of the Company is pleased to announce the audited annual results of the Company and its subsidiaries for the year ended 31 December 2019, which were prepared in accordance with the China Accounting Standards for Business Enterprises.

CONSOLIDATION BALANCE SHEET

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

Items	Notes	December 31, 2019	January 1, 2019
Current assets:			
Cash and bank		10,072,252,977.07	12,543,251,700.19
△ Settlement reserve			
△ Due from banks and other financial institutions		888,000,000.00	600,000,000.00
☆ Transactional financial assets			
Financial assets at fair value through profit and loss			
Derivative assets			
Notes receivable		3,301,953,735.63	3,112,281,635.68
Accounts receivable	II	5,818,842,820.85	6,674,746,317.19
Receivables for financing			
Prepayments		2,901,225,990.61	3,592,286,216.57
△ Premium receivable			
△ Reinsurance premium receivable			
△ Reinsurance reserve receivable			
Other receivables		854,708,274.51	1,270,159,303.49
△ Buying back the sale of financial assets			
Inventories		9,287,668,696.47	10,454,912,311.25
Including: raw materials		3,167,750,924.22	3,212,257,379.48
Merchandise inventories(finished goods)		286,364,638.84	344,585,898.98
☆ Contract assets	III	10,267,289,497.11	8,233,457,249.78
Held-for-sale assets			
Current portion of non-current assets			49,955,000.00
Other current assets		2,333,811,211.04	781,645,718.79
Total current assets		<u>45,725,753,203.29</u>	<u>47,312,695,452.94</u>

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

Items	<i>Notes</i>	December 31, 2019	January 1, 2019
Non-current assets:			
△ Loans and advances issued		34,089,231.04	
☆ Debt investments			
Available-for-sale financial assets			
☆ Other debt investments		300,623,400.00	
Held-to-maturity investments			
Long-term receivables		1,540,730.47	3,358,126.45
Long-term equity investments		214,823,131.64	182,173,650.81
☆ Other equity instruments investments		597,549,193.66	716,953,772.26
☆ Other non-current financial assets		45,510,641.64	
Investment property		196,499,452.03	233,173,255.85
Fixed assets		5,917,633,439.86	5,868,709,413.99
Construction in progress		247,408,962.85	664,086,992.85
productive biological assets			
Oil and gas assets			
☆ The right-of-use assets			
Intangible assets		982,044,801.27	767,164,480.73
Development disbursements		288,801,839.77	274,062,234.32
Goodwill			
Long-term deferred expenses		14,748,667.37	29,463,079.46
Deferred tax assets		515,639,833.88	490,142,216.40
Other non-current assets			
Including: authorised reserve material			
Total non-current assets		<u>9,356,913,325.48</u>	<u>9,229,287,223.12</u>
Total assets		<u>55,082,666,528.77</u>	<u>56,541,982,676.06</u>

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

Items	Notes	December 31, 2019	January 1, 2019
Current liabilities:			
Short-term borrowings		5,334,276,168.70	1,572,908,534.19
△ Borrowings from central bank			
△ Placement from banks and other financial institutions			300,000,000.00
☆ Transactional financial liabilities			
Financial liabilities at fair value through profit and loss			
Derivative liabilities			
Notes payable		5,571,474,750.27	5,836,028,015.25
Accounts payable	IV	11,855,193,376.96	13,215,819,754.05
Advances from customers			
☆ Contract liabilities	III	12,251,816,737.12	14,596,720,387.12
△ Securities sold under agreement to repurchase			
△ Deposits and placements from other financial institutions		572,298,335.02	1,701,564,614.29
△ Securities brokering			
△ Securities underwriting			
Employee benefits payable		539,090,012.63	296,206,737.79
Including: salary payable		261,228,346.84	47,549,236.28
Welfare benefits payable			20,641.00
[#] Employee bonus and welfare fund			
Taxes and surcharges payable		330,384,742.00	374,043,503.79
Including: taxes payable excluding surcharges		319,673,777.48	359,389,161.53
Other payables		144,169,679.46	282,211,997.43
△ Fees and commissions payable			
△ Reinsurance amounts payable			
Held-for-sale liabilities			
Current portion of non-current liabilities		300,000,000.00	200,000,000.00
Other current liabilities		495,272.00	188,548.80
Total current liabilities		36,899,199,074.16	38,375,692,092.71

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

Items	<i>Notes</i>	December 31, 2019	January 1, 2019
Non-current liabilities:			
△ Reserve of insurance contract			
Long-term borrowings		565,600,000.00	300,000,000.00
Bonds payable			
including: preferred stocks			
perpetual debts			
☆ Lease liabilities			
Long-term payable		510,862,094.29	484,843,694.29
Long-term employee benefits payable		176,288,338.42	142,308,359.65
Provisions		940,402,644.61	785,172,986.49
Deferred income		134,150,192.62	144,934,944.49
Deferred tax liabilities			
Other non-current liabilities			
Including: authorized reserve fund			
		<hr/>	<hr/>
Total non-current liabilities		<u>2,327,303,269.94</u>	<u>1,857,259,984.92</u>
Total liabilities		<u><u>39,226,502,344.10</u></u>	<u><u>40,232,952,077.63</u></u>

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

Items	Notes	December 31, 2019	January 1, 2019
Equity:			
Paid-in capital		1,706,523,000.00	1,706,523,000.00
State-owned capital			
State-owned legal person's capital		1,030,952,000.00	1,030,952,000.00
Collectively owned capital			
Private capital			
Foreign capital		675,571,000.00	675,571,000.00
#Less: payback capital			
Paid-in capital (share capital)-net value		1,706,523,000.00	1,706,523,000.00
Other equity instruments			
Including: Preferred stock			
Perpetual debt			
Capital reserve		4,249,144,205.66	3,715,737,494.12
Less: treasury shares			
Other comprehensive income		-30,906,914.62	66,045,215.97
Including: Currency translation reserve		4,029,075.02	2,716,262.19
Specialized reserve		41,541,755.49	30,812,983.78
Surplus reserve		809,136,649.47	809,136,649.47
Including: statutory surplus reserve		809,136,649.47	809,136,649.47
Other surplus reserve			
#Reserve fund			
#Corporate development fund			
#Return of investment			
△ General risk reserve			
Retained earnings	V	8,804,199,937.94	8,698,026,738.58
Equity attributable to parent company		15,579,638,633.94	15,026,282,081.92
* Minority interests		276,525,550.73	1,282,748,516.51
Total owner's equity		15,856,164,184.67	16,309,030,598.43
Total liabilities and owner's equity		55,082,666,528.77	56,541,982,676.06

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION INCOME STATEMENTS

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

Items	Notes	Current Period	Prior Period
1. Revenue		22,901,459,145.46	26,302,310,419.37
Including: operating revenue	VI	22,515,591,468.64	25,879,460,850.62
△ Interest income		385,867,676.82	422,786,538.17
△ Premium earned			
△ Fees and commissions income			63,030.58
2. Total cost		22,367,518,189.56	25,735,957,664.46
Including: operating cost	VI	19,191,312,021.68	22,687,530,919.78
△ Interest expenses		14,427,750.90	20,736,138.63
△ Fees and commissions expenses		54,128.19	27,263.79
△ Cash surrender amount			
△ Net expenses of claim settlement			
△ Net provisions for insurance reserves			
△ Policy dividend expenses			
△ Reinsurance expenses			
Taxes and surcharges		126,175,614.36	203,240,789.57
Selling expenses		603,991,912.06	731,236,125.20
Administrative expenses		1,669,845,499.18	1,465,162,135.63
Research and development expenses		687,524,568.89	591,928,067.08
Financial expenses		74,186,694.30	36,096,224.78
Including: interest expenses		121,186,584.99	124,294,753.28
Interest income		62,031,288.50	62,278,154.48
Net exchange loss			
(“-” for net proceeds)		-433,735.71	-43,507,919.60
Other costs and expenses			

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

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

Items	Notes	Current Period	Prior Period
Add: Other income		102,526,412.72	174,777,343.70
Investment income (“-” for loss)		27,206,095.96	139,663,587.58
Including: investment income from associates and joint ventures		20,512,794.72	33,832,648.30
☆ Income from derecognition of financial assets at amortised cost			
△ Gain on foreign exchange (“-” for loss)		-1,403.16	-4,285.22
☆ Net exposure hedging returns (“-” for losses)			812,129.03
Gain from fair-value changes (“-” for loss)			
☆ Credit losses (“-” for loss)		-287,511,367.09	-491,545,231.57
Impairment on assets (“-” for loss)		-233,020,005.52	-179,934,482.68
Proceeds from asset disposal (“-” for loss)		5,299,562.95	2,283,473.35
3. Operating profits (“-” for loss)		148,440,251.76	212,405,289.10
Add: non-operating income		142,588,893.37	47,261,642.78
Including: Government grants		12,300,901.34	4,876,415.01
Less: non-operating expenses		73,886,377.61	102,812,797.65
4. Profit before tax (“-” for loss)		217,142,767.52	156,854,134.23
Less: income tax	VII	99,927,361.67	54,166,496.62

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

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

Items	Notes	Current Period	Prior Period
5. Net profit (“-” for net loss)		117,215,405.85	102,687,637.61
(1) By ownership			
Net profit attributable to parent company		106,173,199.36	71,316,651.84
* Profit/loss attributable to minority shareholders		11,042,206.49	31,370,985.77
(2) By going concern basis			
Continuous operating profit and loss		117,215,405.85	103,075,019.32
Termination of the business profit and loss			-387,381.71
6. Other comprehensive income after tax		-96,906,420.38	66,567,309.74
Other comprehensive income after tax attributable to parent company		-96,952,130.59	66,510,166.44
(1) Comprehensive income not to be reclassified as profit or loss		-137,404,578.60	63,358,777.91
1. Remeasure the change in net liabilities or net assets of defined beneficiary plans			
2. Shares in other comprehensive income that the investee cannot reclassify into profit or loss under the equity method			
☆ 3. Net gain on equity instruments at fair value through other comprehensive income		-137,404,578.60	63,358,777.91
☆ 4. Fair value changes in enterprise's own credit risk			
5. Others			

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

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

Items	Notes	Current Period	Prior Period
(2) Other comprehensive income to be reclassified as profit or loss		40,452,448.01	3,151,388.53
1. Share of other comprehensive income of an associate			
☆ 2. Net gain on debt instruments at fair value through other comprehensive income		455,589.79	434,106.70
3. Gain or loss from fair value changes of available-for-sale financial assets			
☆ 4. The amount of financial assets reclassified into other comprehensive income			
5. Gain or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			
☆ 6. Other debt investment credit impairment provision			
7. Cash flow hedging reserve		38,684,045.39	-690,309.68
8. Currency translation reserve		1,312,812.83	3,407,591.51
9. Other profit or loss to be reclassified			
*Other comprehensive income after tax attributable to minority share-holders		45,710.21	57,143.30
7. Total comprehensive income		20,308,985.47	169,254,947.35
Total comprehensive income attributable to parent company		9,221,068.77	137,826,818.28
*Total consolidated income attributable to minority share-holders		11,087,916.70	31,428,129.07
8. Earnings per share:			
Basic earnings per share	VIII	0.06	0.04
Diluted earnings per share	VIII	0.06	0.04

Corporate representative:

Chief Accountant:

Accounting Supervisor:

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

Items	Notes	Current Period	Prior Period
1. Cash flows from operating activities:			
Cash received from sales and services		20,858,580,470.08	22,354,782,681.00
△ Net increase in deposits and placements from financial institutions		-1,129,266,279.27	898,590,519.60
△ Net increase in due to central banks			
△ Net increase in placement from financial institutions		-660,000,000.00	-400,000,000.00
△ Cash received from premiums of original insurance contracts			
△ Net amount of reinsurance business			
△ Net increase in insured's deposits and investments			
△ Net increase in disposal of financial assets at fair value through profit and loss			
△ Cash received from interests,fees and commissions		384,315,321.75	424,925,505.86
△ Net increase of placement from banks and other financial institutions			
△ Net increase in repurchasing			
△ Net cash received from agent sales of securities			
Taxes and surcharges refunds		386,707,107.76	126,401,116.57
Other cash receipts related to operating activities		695,910,799.59	736,892,044.63
Total cash inflows from operating activities		20,536,247,419.91	24,141,591,867.66
Cash paid for goods and services		18,824,747,746.59	19,119,364,492.84
△ Net increase in loans and advances		34,963,313.89	-492,068.11
△ Net increase in deposits with central banks and other financial institutions		-136,595,465.42	-112,415,761.06
△ Cash paid for claim settlements on original insurance contracts			
△ Net increase of due from banks and other financial institutions			
△ Cash paid for interest,fees and commissions		22,010,570.98	36,902,209.86
△ Cash paid for policy dividends			
Cash paid to and for employees		2,482,999,195.96	2,839,831,972.33
Taxes and surcharges cash payments		855,899,003.57	1,496,406,732.76
Other cash payments related to operating activities		1,847,065,071.25	1,437,993,936.57
Total cash outflows from operating activities		23,931,089,436.82	24,817,591,515.19
Net cash flows from operating activities		-3,394,842,016.91	-675,999,647.53

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

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

Items	Notes	Current Period	Prior Period
2. Cash flows from investing activities:			
Cash received from withdraw of investments		557,389,066.94	4,220,000,000.00
Cash received from investment income		65,504,510.85	107,622,371.16
Net cash received from disposal of fixed assets,intangible assets and other long-term assets		3,041,696.13	4,456,938.83
Net cash received from disposal of subsidiaries and other business units			3,607,833.22
Other cash receipts related to investing activities		11,690,889.53	18,173,074.77
Total cash inflows from investing activities		637,626,163.45	4,353,860,217.98
Cash paid for fixed assets,intangible assets and other long-term assets		492,075,913.64	398,730,260.63
Cash payments for investments		2,624,669,000.00	2,267,999,994.35
△ Net increase in pledged loans			
Net cash paid for acquiring subsidiaries and other business units		483,559,694.40	
Other cash payments related to investing activities		130,175,759.77	5,467,409.36
Total cash outflows from investing activities		3,730,480,367.81	2,672,197,664.34
Net cash flows from investing activities		-3,092,854,204.36	1,681,662,553.64

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

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

Items	Notes	Current Period	Prior Period
3. Cash flows from financing activities:			
Cash received from investments by others			
Including: cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings		8,315,951,230.89	1,064,550,263.57
△ Cash received from bond issues			
Other cash receipts related to other financing activities		1,021,391.83	5,178,584.78
Total cash inflows from financing activities		8,316,972,622.72	1,069,728,848.35
Cash repayments for debts		4,191,898,268.88	5,412,652,622.16
Cash payments for distribution of dividends, profit and interest expenses		168,770,574.75	192,880,766.41
Including: dividends or profit paid by subsidiaries to minority shareholders			31,707,132.77
Other cash payments related to financing activities			1,208,154.36
Total cash outflows from financing activities		4,360,668,843.63	5,606,741,542.93
Net cash flows from financing activities		3,956,303,779.09	-4,537,012,694.58
4. Effect of foreign exchange rate changes on cash and cash equivalents		22,933,704.54	30,740,345.41
5. Net increase in cash and cash equivalents		-2,508,458,737.64	-3,500,609,443.06
Add: beginning balance of cash and cash equivalents		11,705,681,448.94	15,206,290,892.00
6. Ending balance of cash and cash equivalents		9,197,222,711.30	11,705,681,448.94

Corporate representative:

Chief Accountant:

Accounting Supervisor:

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

Items	Equity attributable to parent company										Total owner's equity		
	Current period												
	Paid-in capital	Preferred stock	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	△ General risk provision	Retained earnings		Subtotal	Minority interests
1. Ending balance of last year	1,706,523,000.00			3,715,737,494.12		66,045,215.97	30,812,983.78	809,136,649.47		8,698,026,738.58	15,026,282,081.92	1,282,748,516.51	16,309,030,598.43
Add: increase/decrease due to changes in accounting policies													
Increase/decrease due to corrections of errors in Prior Period													
Others													
2. Beginning balance of current year	1,706,523,000.00			3,715,737,494.12		66,045,215.97	30,812,983.78	809,136,649.47		8,698,026,738.58	15,026,282,081.92	1,282,748,516.51	16,309,030,598.43
3. Increase/decrease for current year *1 for decrease													
(1) Total comprehensive income						-96,952,130.59	10,728,771.71			106,173,199.36	533,356,552.02	-1,006,222,965.78	-452,866,413.76
(2) Owner's contributions and withdrawals of capital						-96,952,130.59				106,173,199.36	9,221,068.77	11,087,916.70	20,308,985.47
1. Common stock contributed by owners													
2. Capital contributed by other equity instruments holders													
3. Share-based payment recorded in owner's equity													
4. Others													
(3) Accrual and utilization of specialized reserve													
1. Accrual of specialized reserve													
2. Utilization of specialized reserve													
(4) Profits distribution													
1. Appropriation of surplus reserve													
Including: statutory surplus reserve													
Discretionary surplus reserve													
Reserve fund													
Corporate development fund													
Return of investment													
2. Accrual of general risk reserve													
3. Distribution to owner/shareholder													
4. Others													
(5) Transfer within owner's equity													
1. Capital reserve transferred to paid-in capital													
2. Surplus reserve transferred to paid-in capital													
3. Recover of loss by surplus reserve													
4. Defined benefit plan changes carried forward to retained earnings													
* 5. Other comprehensive income carried forward to retained earnings													
6. Others													
4. Ending balance of current year	1,706,523,000.00			4,249,144,205.66		-30,906,914.62	41,541,755.49	809,136,649.47		8,804,199,937.94	15,579,638,633.94	276,525,550.73	15,856,164,184.67

Corporate representative:

Chief Accountant:

Accounting Supervisor:

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

Items	Equity attributable to parent company										Total owner's equity			
	Paid-in capital	Preferred stock	Perpetual bonds	Others	Capital reserve	Less treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	△ General risk provision		Retained earnings	Subtotal	Minority interests
1. Ending balance of last year	1,706,523,000.00				3,690,197,230.17		18,514,209.22	19,377,426.96	786,529,945.86		8,649,609,089.09	14,870,750,901.30	1,271,400,777.32	16,142,151,678.62
Add: increase/decrease due to changes in accounting policies														
Increase/decrease due to corrections of errors in Prior Period														
Others														
2. Beginning balance of current year	1,706,523,000.00				3,690,197,230.17		18,514,209.22	19,377,426.96	786,529,945.86		8,649,609,089.09	14,870,750,901.30	1,271,400,777.32	16,142,151,678.62
3. Increase/decrease for current year** for decrease														
(1) Total comprehensive income							47,531,006.75	11,435,556.82	22,606,703.61		48,417,649.49	155,531,180.62	11,347,739.19	166,878,919.81
(2) Owner's contributions and withdrawals of capital					25,540,263.95		66,510,166.44				71,316,651.84	137,826,818.28	31,428,129.07	169,254,947.35
1. Common stock contributed by owners					25,540,263.95							25,540,263.95	9,375,000.00	34,915,263.95
2. Capital contributed by other equity instrument holders														
3. Share-based payment recorded in owner's equity														
4. Others					25,540,263.95									
(3) Accrual and utilization of specialized reserve								11,435,556.82						
1. Accrual of specialized reserve								23,194,591.55						
2. Utilization of specialized reserve								-11,759,034.73						
(4) Profits distribution									22,606,703.61					
1. Appropriation of surplus reserve									22,606,703.61					
Including: statutory surplus reserve									22,606,703.61					
Discretionary surplus reserve														
Reserve fund														
Corporate development fund														
Return of investment														
2. Accrual of general risk reserve														
3. Distribution to owner/shareholder														
4. Others														
(5) Transfer within owner's equity														
1. Capital reserve transferred to paid-in capital														
2. Surplus reserve transferred to paid-in capital														
3. Recover of loss by surplus reserve														
4. Defined benefit plan changes carried forward to retained earnings														
* 5. Other comprehensive income carried forward to retained earnings														
6. Others							-18,979,159.69							
4. Ending balance of current year	1,706,523,000.00				3,715,737,494.12		66,045,215.97	30,812,983.78	809,136,649.47		8,698,026,738.58	15,026,282,081.92	1,282,748,516.51	16,309,030,598.43

Corporate representative:

Chief Accountant:

Accounting Supervisor:

2019 ANNUAL PERFORMANCE ANNOUNCEMENT

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

I. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. Basis of preparation

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

2. Going concern

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

II. ACCOUNTS RECEIVABLE

Items	Closing balance	Opening balance
Accounts receivable	10,356,922,055.07	11,238,171,927.04
Less: bad-debt provision	<u>4,538,079,234.22</u>	<u>4,563,425,609.85</u>
Net accounts receivable	<u>5,818,842,820.85</u>	<u>6,674,746,317.19</u>

1. Accounts receivable accruing bad debt provision by applying aging analysis

Age	Closing balance Amount	Opening balance Amount
Within one year	3,289,887,707.20	4,020,608,853.48
One to two years	1,470,175,674.50	1,646,863,673.80
Two to three years	697,048,252.06	537,649,317.28
Over three years	361,731,187.09	469,624,472.63
Total	<u>5,818,842,820.85</u>	<u>6,674,746,317.19</u>

The credit period given to customers is different, generally depending on the financial strength of individual customers. For the effective management of the credit risk associated with accounts receivable, the Company regularly assesses the customer's credit.

III. CONTRACT ASSETS AND CONTRACT LIABILITIES

1. Details of contractual assets and contractual liabilities

	Contract assets
Opening balance	9,681,989,606.23
Increase in this period	3,868,340,037.32
Converted in to accounts receivable in this period	1,772,024,381.03
Closing balance	11,778,305,262.52
Contract asset impairment provision	1,511,015,765.41
Net closing balance	10,267,289,497.11
Including: listed as contract assets	10,267,289,497.11
listed as other non-current assets	
	Contract liabilities
Opening balance	14,596,720,387.12
Increase in this period	10,853,731,208.97
Interest adjustment	
The income confirmed in the current period includes the income in the balance at the beginning of the year.	13,198,634,858.97
Closing balance	12,251,816,737.12
Including: listed as contract liabilities	12,251,816,737.12
listed as other non-current liabilities	

IV. ACCOUNTS PAYABLE

Items	Closing balance	Opening balance
Within one year	8,589,643,182.01	10,003,805,732.84
One to two years	2,407,899,286.84	1,811,999,790.23
Two to three years	447,468,888.11	597,497,973.67
Over three years	410,182,020.00	802,516,257.31
Total	<u>11,855,193,376.96</u>	<u>13,215,819,754.05</u>

V. UNDISTRIBUTED PROFIT

Items	Current period
Balance before adjustment at the end of preceding period	8,698,026,738.58
Adjust the total undistributed profit at the beginning of the year (increase +, decrease-)	
Opening balance after adjustment	8,698,026,738.58
Add: Net profit attributable to owners of the parent company	106,173,199.36
Other increase	
Less: Appropriation of statutory surplus reserve	
Appropriation of discretionary surplus reserve	
Appropriation of general risk reserve	
Dividends payable on ordinary shares	
Dividends on ordinary share converted to share capital	
Others	
Closing balance	<u>8,804,199,937.94</u>

VI. OPERATING INCOME AND OPERATING COST

Items	Amount of this period		Amount of the previous period	
	Income	Cost	Income	Cost
Main business	22,300,932,077.66	19,059,306,377.16	25,673,513,488.27	22,523,020,468.15
Other business	214,659,390.98	132,005,644.52	205,947,362.35	164,510,451.63
Total	<u>22,515,591,468.64</u>	<u>19,191,312,021.68</u>	<u>25,879,460,850.62</u>	<u>22,687,530,919.78</u>

VII. INCOME TAX EXPENSE

Items	Current period	Previous period
Current income tax calculated based on tax law and related regulations	123,077,790.69	113,890,721.19
Adjustment to deferred income tax	-32,519,673.73	-59,724,224.57
Others	9,369,244.71	
Total	<u>99,927,361.67</u>	<u>54,166,496.62</u>

VIII. EARNINGS PER SHARE

(1) Basic Earnings Per share

Items	Current period	Previous period
Consolidated net profit attributable to ordinary shareholders of the parent company	106,173,199.36	71,316,651.84
Consolidated net profit attributable to ordinary shareholders of the parent company (After deducting non-recurring gains and losses)	-73,300,398.77	-37,928,493.45
The weighted average number of ordinary shares issued by the parent company	1,706,523,000.00	1,706,523,000.00
Basic eps (<i>Yuan per share</i>)	0.06	0.04
Basic eps (<i>Yuan per share</i>) (After deducting non-recurring gains and losses)	-0.04	-0.02

Common stock weighted average calculation:

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

(2) Diluted Earnings Per share

Items	Current period	Previous period
Adjusted net profit attributable to common shareholders of the parent company	106,173,199.36	71,316,651.84
Adjusted net profit attributable to ordinary shareholders of the parent company (after deducting non-recurring gains and losses)	-73,300,398.77	-37,928,493.45
The weighted average number of ordinary shares issued by the Company after adjustment	1,706,523,000.00	1,706,523,000.00
Diluted Earnings Per share	0.06	0.04
Diluted Earnings Per share(After deducting non-recurring gains and losses)	-0.04	-0.02

IX. SEGMENT INFORMATION

(1) the assets, liabilities and income of segments

Items	Thermal power host equipment	Water and electricity host equipment	Plant engineering service	Power station auxiliary equipment and ancillary products	Nuclear products	Ac and dc motor and others	Total
As at 31 Dec 2019							
Total amount of reportable segment assets	31,358,808,053.07	7,808,856,434.46	6,793,551,768.38	2,824,191,297.17	5,684,045,055.07	9,614,667,379.77	64,084,119,987.92
Including: increase the amount of construction in progress in the current period	243,505,116.36	67,505,164.81	188,279.09	43,140,760.95	29,009,516.81	204,710,812.33	588,059,650.35
Purchase of fixed assets and intangible assets	36,334,558.22	4,667,982.81	6,105,496.94	7,464,322.82	132,098,283.12	318,376,782.60	505,047,426.51
Total amount of reportable segment liabilities	27,506,084,273.07	4,373,987,492.35	6,146,541,709.58	1,903,458,884.35	3,953,037,581.90	7,274,868,826.59	51,157,978,767.84
Jan to Dec 2019							
Segment income							
Income from external customers	8,348,147,240.57	2,682,222,212.05	5,453,117,695.87	1,188,632,850.05	1,289,081,347.44	3,554,390,122.66	22,515,591,468.64
Income between segment	3,687,988,049.45					17,631,214.95	3,705,619,264.40
Reportable segment income	12,036,135,290.02	2,682,222,212.05	5,453,117,695.87	1,188,632,850.05	1,289,081,347.44	3,572,021,337.61	26,221,210,733.04
Reportable segment gross margin	1,497,641,426.18	413,668,148.94	94,916,778.51	162,399,205.41	305,283,353.50	877,673,630.41	3,351,582,542.95

Items	Thermal power host equipment	Water and electricity host equipment	Plant engineering service	Power station auxiliary equipment and ancillary products	Nuclear products	Ac and dc motor and others	Total
As at 31 Dec 2018							
Total amount of reportable segment assets	38,060,046,043.09	4,981,546,381.13	5,900,713,218.18	2,224,798,407.05	5,896,667,133.22	6,804,956,851.21	63,868,728,033.88
Including: increase the amount of construction in progress in the current period	166,286,437.12	33,271,531.75		3,461,068.88	48,118,232.00	122,108,436.70	373,245,706.45
Purchase of fixed assets and intangible assets	33,750,643.16	5,563,549.63	3,113,450.72	3,749,449.78	45,896,807.40	31,977,468.70	124,051,369.39
Total amount of reportable segment liabilities	30,909,471,437.62	2,886,382,078.26	5,424,335,500.65	1,612,693,371.77	4,161,869,551.86	5,542,935,511.45	50,537,687,451.61
Jan to Dec 2018							
Segment income							
Income from external customers	11,877,253,493.44	1,704,635,327.78	7,411,068,070.00	899,959,203.92	1,328,093,155.01	2,658,451,600.47	25,879,460,850.62
Income between segment	2,445,150,561.55					25,907,149.35	2,471,057,710.90
Reportable segment income	14,322,404,054.99	1,704,635,327.78	7,411,068,070.00	899,959,203.92	1,328,093,155.01	2,684,358,749.82	28,350,518,561.52
Reportable segment gross margin	<u>1,688,416,137.54</u>	<u>151,307,340.39</u>	<u>253,427,300.43</u>	<u>90,244,697.64</u>	<u>279,757,718.61</u>	<u>762,349,542.38</u>	<u>3,225,502,736.99</u>

(2) Information of assets, liabilities and income of segments

Items	Closing balance	Opening balance
Assets		
Reportable segment assets	64,084,119,987.92	63,868,728,033.88
Offset segment related transaction	-20,159,484,964.02	-19,044,229,265.34
Reportable segment net assets	43,924,635,023.90	44,824,498,768.54
Deferred tax assets	515,639,833.88	490,142,216.40
Other non-current assets		
Financial asset and its change record in current profit and loss based on fair value		
Restricted and pledged bank borrowing		
Bank deposit	7,812,918,293.40	8,730,639,860.30
Central bank deposit	497,983,048.37	635,145,558.72
Cash and cash equivalent	51,260,451.60	50,694,420.76
Undistributed headquarters and company assets	2,280,229,877.62	1,810,861,851.34
Total assets	<u>55,082,666,528.77</u>	<u>56,541,982,676.06</u>

Items	Closing balance	Opening balance
Liabilities		
Reportable segment liabilities	51,157,978,767.84	50,537,687,451.61
Offset segment related transaction	-12,837,672,374.26	-12,683,916,496.00
Reportable segment net liabilities	38,320,306,393.58	37,853,770,955.61
Tax payable	330,384,742.00	374,043,503.79
Deferred tax liabilities		
Undistributed liabilities	575,811,208.52	2,005,137,618.23
	<hr/>	<hr/>
Total liabilities	39,226,502,344.10	40,232,952,077.63
	<hr/> <hr/>	<hr/> <hr/>

Items	Current period	Previous period
Income		
Income from external customers	22,515,591,468.64	25,879,460,850.62
Income between segment	3,705,619,264.40	2,471,057,710.90
Reportable segment income	26,221,210,733.04	28,350,518,561.52
Reportable segment gross margin	3,351,582,542.95	3,225,502,736.99
Offset segment loss	27,303,095.99	33,572,806.15
Report segment gross margin from external customers of the group	3,324,279,446.96	3,191,929,930.84
Long-term equity investment gain based on equity method	20,512,794.76	33,832,648.30
Interest income	447,844,950.49	485,064,692.65
Chinese government grants	114,827,314.06	179,653,758.71
Financial asset and its change record in current profit and loss based on fair value		
Financial liabilities and its change record in current profit and loss based on fair value		
Interest expense	133,684,660.89	145,030,891.91
Impairment loss for the present period of long-term assets such as fixed assets and intangible assets		
Undistributed other income and net income	142,279,453.02	151,370,514.79
Undistributed headquarters and corporate expenses	3,698,916,530.88	3,739,966,519.15
	<hr/>	<hr/>
Total income	217,142,767.52	156,854,134.23
	<hr/> <hr/>	<hr/> <hr/>

(3) Region information

Items	Income from external customers	
	2019	2018
1. Domestic (China)	17,057,967,494.47	18,482,059,253.38
2. overseas		
– Islamic Republic of Pakistan	394,242,772.71	940,501,828.49
– The Republic of Turkey	45,352,307.63	292,124,872.39
– The United Arab Emirates	4,330,026,595.62	5,275,085,949.28
– The Republic of Ecuador	223,988,213.93	382,959,581.28
– People’s Republic of Bangladesh	11,504,657.21	139,432,199.33
– The Republic of India	118,253,384.76	38,195,592.42
– other countries	334,256,042.31	329,101,574.05
Overseas subtotal	5,457,623,974.17	7,397,401,597.24
Total	22,515,591,468.64	25,879,460,850.62

X. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Investee	Opening balance	Changes in the current period						Closing balance	Provision for impairment loss	Impairment provision at the end of the year
		Increase	Decrease	Under the equity method to confirm the investment profit and loss	Other comprehensive income adjustment	Other equity changes	Declaration of cash dividends or profits			
1. Investment in subsidiaries										
Shenzhen Harbin Power Huihua Trading Company Limited	3,000,000.00							3,000,000.00	3,000,000.00	
Subtotal	3,000,000.00							3,000,000.00	3,000,000.00	
2. Cooperative enterprise										
Harbin Electric General Gas Turbine (Qinhuangdao) Co., Ltd.		42,620,800.00		-719,778.22				41,901,021.78		
Subtotal		42,620,800.00		-719,778.22				41,901,021.78		
3. Associates										
General Electric – Harbin Power Services (Qinhuangdao) Company	119,762,839.40			17,828,817.46				137,591,656.86		
Huludao Binhai Hydro Power Company Limited	51,265,399.11		51,265,399.11							
Harbin HE Liling Hydropower Equipment New Technology Development Co., Ltd.	6,803,796.45			493,153.52				7,296,949.97		
Harbin Huitong Power Engineering Company Limited	6,550,167.69			2,738,656.48		3,022,466.85		6,266,357.32		
Harbin HE Petrol Station Co., Ltd.	2,015,200.23			171,945.48		170,000.00		2,017,145.71		
Harbin Ruifeng New Energy Co., Ltd.	6,000,000.00	13,750,000.00						19,750,000.00		
ACWA Power Harbin Holdings Limited										
Subtotal	192,397,402.88	56,370,800.00	51,265,399.11	21,232,572.94		3,192,466.85		172,922,109.86		
Total	195,397,402.88	56,370,800.00	51,265,399.11	20,512,794.72		3,192,466.85		217,823,131.64	3,000,000.00	

XI. NET CURRENT ASSETS

Items	Closing balance	Opening balance
Current assets	45,725,753,203.29	47,312,695,452.94
Less: current liabilities	<u>36,899,199,074.16</u>	<u>38,375,692,092.71</u>
Net current assets	<u>8,826,554,129.13</u>	<u>8,937,003,360.23</u>

XII. TOTAL ASSETS MINUS CURRENT LIABILITIES

Items	Closing balance	Opening balance
Total assets	55,082,666,528.77	56,541,982,676.06
Less: current liabilities	<u>36,899,199,074.16</u>	<u>38,375,692,092.71</u>
Total assets minus current liabilities	<u>18,183,467,454.61</u>	<u>18,166,290,583.35</u>

XIII. DIVIDEND

The 36th Meeting of the 8th Session of the Board of Directors reviewed and approved the 2019 annual profit distribution plan, recommending not to pay final dividend for 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

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

MACRO-ECONOMY AND INDUSTRY DEVELOPMENT

The current world economic growth continues to slow down, and is still in the period of further adjustment after the international financial crisis. In spite of the significantly increasing sources of fluctuation and risks across the world, the basic trend of China's economic stability and long-term improvement remains unchanged. At the same time, China is in the tackling phase of transforming its development model, optimizing its economic structure, and transforming its growth momentum. Structural, institutional, and periodic issues are intertwined. The impact of "three-periods overlaying" continues to deepen, and downward pressure on the economy is increasing.

In 2019, China electric power continued its green and low-carbon development trend, and the proportion of non-fossil energy power generation installed capacity continued to increase, and non-fossil energy power generation maintained rapid growth. As of the end of 2019, the country's full-caliber power generation installed capacity was 2.01 billion kilowatts, an increase of 5.8% over the end of the previous year, of which non-fossil energy power generation installed capacity was 840 million kilowatts, an increase of 8.7% over the previous year, accounting for 41.9% of total installed capacity. It increased by 1.1 percentage points over the end of the previous year. In 2019, the nation's new installed power generation capacity was 101.73 million kilowatts, a decrease of 26.12 million kilowatts over the previous year; of which, the new non-fossil energy power generation installed capacity was 63.89 million kilowatts, accounting for 62.8% of the total new installed power generation capacity; the new installed capacity of coal electric power and gas electric power was 29.89 million kilowatts and 6.29 million kilowatts, respectively, a decrease of 670,000 kilowatts and 2.55 million kilowatts compared with the previous year.

PRODUCTION AND OPERATION

Overview

2019 is a year for the Company to overcome difficulties and face the severe winter, and also a year for the Company to break the fetter, conduct reform and make innovation. During the year, facing severe situations, all cadres and employees of the Company have gathered together to overcome difficulties, and the Company has achieved a stable overall operation as the Company has spared no effort to fight against the battle for survival, make breakthrough in transformation, and win battle for reform.

New contracts

In 2019, facing a complicated and challenging internal and external situation, the Company adhered to goal orientation, innovated marketing system, and deepened reform of the divisional system on a ongoing basis, thereby realizing RMB30.190 billion worth of duly signed contracts (2018: RMB33.744 billion), of which RMB7.714 billion (or 25.55% of total contract value) for thermal power equipment, RMB1.669 billion (or 5.53% of total contract value) for hydropower equipment, RMB2.663 billion (or 8.82% of total contract value) for nuclear power equipment, RMB0.714 billion (or 2.36% of total contract value) for steam equipment, RMB11.415 billion (or 37.81% of total contract value) for power engineering, RMB3.128 billion (or 10.36% of total contract value) for power station services, and RMB2.887 billion (or 9.56% of total contract value) for other products.

Thermal power industry: Affected by the national industrial policies that restrict the development scale of coal power in recent years, the scale of new bidding is on the decline, and the amount of formal contracts signed by the group in respect of thermal power industry is also on the decline. In 2019, the formal contracted value of the Company's thermal power equipment decreased by 36.70% over the previous year.

Steam power industry: As the Company acquired two national demonstration projects—Datang Nanjing Power Plant Phase II and Jiangyin Thermoelectricity, the formal contracted value achieved a high growth as compared with the same period last year. In 2019, the formal contract value of the Company's steam power equipment increased by 586.33% over the previous year.

Nuclear power industry: As the contract of Hainan Changjiang Phase II came into force, the formal contracted value achieved a high growth as compared with the same period last year. In 2019, the formal contract value of the Company's nuclear power equipment increased by 518.37% over the previous year.

International market: As formal contracts for power engineering kept exceeding RMB10 billion, and all industrial equipment and services went global by means of “leveraging resources lent to go global”, the formal contract value of the Company in international market in 2019 was RMB12.652 billion, representing a decrease of 11.84% over the previous year.

Production & service

In order to ensure the Company's sustainable and healthy development and further reduce operational risks, the Company's overall scale of production in 2019 declined as considering the Company's orders in hand, market situation, user needs, and project schedules. During the year, output of the Company's power generation equipment amounted to 10,990 MW, down by 22.5% over the same period last year, of which

1,810 MW were produced by water turbine generator units, down by 20.0% over the same period last year and 9,180 MW by steam turbine generators, down by 23.0% over the same period last year. Output of steam turbines for power stations was 9,870 MW, down by 1.6% over the same period last year and that of boilers for power stations was 14,524 MW, up by 2.4% over the same period last year.

The Company actively responded to market changes, satisfied customers' service needs for the entire life cycle of power plant units, realized a product-centric shift to a market and user-centric transformation, and made every effort to provide customers with high-quality services. In 2019, the overall technology of the Company's self-developed full-service remote operation and maintenance intelligent diagnostic system reached the international advanced level; the "Internet+ Service" power station service platform was officially launched with service providing to 207 users online by the end of 2019, and there were over 10,000 goods provided in "spare parts and services" platform, while the timeliness rate of "customer feedback" reached 100%. Innovating "headquarters to headquarters" marketing model, the Company cooperated with five major power generation groups to achieve joint inventory for spare parts, and actively developed the marketing models such as "technical improvement + parameters upgrading", "technical improvement + overhaul" and "technical improvement + capital".

Scientific research inputs and achievements

In 2019, the Company invested RMB1.15 billion in science and technology, completed a total of 325 scientific research projects and development of 125 new products, and received 29 scientific and technological awards throughout the year, including 2 national special awards and 20 provincial and ministerial awards. "Yangtze River Three Gorges Project" conducted by Machinery Company was awarded National Special Award for Scientific and Technological Progress, and Tianwan Nuclear Power Plant Phase II Project Conventional Island Equipment was awarded First Prize for Scientific and Technological Progress in China's Nuclear Power. During the year, the Company obtained totally 431 patents, of which there were 77 invention patents. Processing Technology for Guide Vanes of Nuclear Pumps in Nuclear Power Plant conducted by Power Equipment Company was awarded the 21st China Patent Excellence Award, and the Machinery Company was recognized as National Enterprise with Advantages in Intellectual Property. The achievements of application demonstration of tools for processing steam generator tube plate (key components) in the third generation nuclear power plant made by the Heavy Equipment Company spanned the gap in China.

In 2019, the Company continued to improve the construction of R&D system, implemented the integration of the central research institute and engineering research center, and made full use of the Company's platform of "National Engineering Research Center for Power Generation Equipment" to coordinate the development of scientific R&D and the engineering and industrialization of scientific research results.

New products and new industries

The Company is committed to promoting the upgrading of enterprises, establishing the industrial transformation system and promoting the development of the new sector. In 2019, the Company focused on new industries and attached great importance to the entry to wind power, optoelectronic, hub motor, energy storage and other industries. The subsidiaries focused on new products and attached great importance to expanding petrochemical container, environmental protection, water treatment, phase modifier, garbage power generation and other products. Scientific research institutions focused on new technologies and attached great importance to such new technologies as gas turbines, in-wheel motor, intelligent control, multi-energy complementarity, low-nitrogen combustion, and hydrogen utilization. During the year, actively promoting the development of wind power and optothermal industry, the Company completed analysis and demonstration, and determined development layout and paths. The first domestically produced 30 MW fuel-powered compressor and 20 MW electric-powered compressor with independent intellectual property rights were put into operation. The Company had the overall ability to construct a power station after completing the introduction, understanding and absorption of solar thermal power generation technology. The demonstration project of coal-fired coupled biomass gasification power generation technology in Datang Changshan Thermal Power Plant has completed the trial operation, and the technology plan of coal-fired coupled garbage power generation has been reviewed by the National Energy Administration.

Capital expenditure and significant investments held

In 2019, the Company injected a total of capital expenditures worth RMB473 million for major construction and technological transformation projects. The major projects include:

making investment to undertake BOT project for ultra-low emission retrofit of boilers in thermal power plant of Chalco Shanxi New Material Co., Ltd so as to expand environmental protection business of the Company, and promote its transformation and upgrading (the project was completed at the end of 2019); making investment in the construction project for a biomass fuel company to collect and store straw, expand the Company's industrial development, extend the scale of production and operation and increase operating profit (the project is currently being implemented).

In 2020, the Company intends to commit an investment of RMB196 million in key construction and technological transformation projects, mainly for technical measures and technological transformation projects of subsidiaries and further investment for the construction project of biomass fuel company.

Major acquisitions and sales of subsidiaries, associates and joint ventures

On 28 November 2019, the Company entered into the Equity Transfer Agreements with China Huarong Asset Management Co., Ltd to acquire its 10.37% equity interest in the Machinery Company, 5.22% equity interest in the Boiler Company, and 26.96% equity interest in the Steam Turbine Company by cash at the purchase amount of RMB432.83 million. On 17 December 2019, the Company entered into the Equity Transfer Agreement with China Great Wall Asset Management Co., Ltd to acquire its 2.70% equity interest in the Boiler Company by cash at the purchase amount of RMB79.28 million.

For more details, please refer to the announcements published by the Company on the website of the Stock Exchange of Hong Kong Limited on 28 November 2019 and 17 December 2019.

MAJOR FINANCIAL INDEXES

In 2019, the Company's operation situation was relatively stable. However, due to the impacts of the macroeconomic environment both at home and abroad and the development trend of the industry, the sales scale has decreased. As the Company presented admirable performance in reducing cost, the overall profit increased.

Profit

In 2019, net profit attributable to the owner of the parent company realized by the Company registered RMB106.17 million, representing an increase of 48.88% over the same period last year; earnings per share were RMB0.06, up by RMB0.02 year on year. The Company's profit increased, primarily because of the admirable performance in cost reduction and decline of provision.

Operating income

In 2019, the Company recorded an operating income of RMB22,515.59 million, representing a decrease of 13.00% over the same period last year, of which operating income from the main thermal power equipment (including thermal power and steam power products) was RMB8,348.15 million (or 37.08% of the total operating income), representing a year-on-year decrease of 29.71%. Operating income from main hydropower equipment was RMB2,682.22 million (or 11.91% of the total operating income), representing a year-on-year increase of 57.35%. Operating income from engineering services for power stations was RMB5,453.12 million (or 24.22% of the total operating income), representing a year-on-year decrease of 26.42%. Operating income from ancillary equipment and supplementary products for power stations was RMB1,188.63 million (or 5.28% of the total operating income), representing a year-on-year increase of 32.08%. Operating income from AC/DC motors and other products and services was RMB3,554.39 million (or 15.79% of the

total operating income), representing a year-on-year increase of 34.23%. Operating income from nuclear power products was RMB1,289.08 million (or 5.73% of the total operating income), representing a year-on-year decrease of 3.70%. Affected by the macroeconomic environment both at home and abroad and the development trend of the industry, the overall sales scale of the Company declined. The hydropower market ushers in the peak of pumped storage development and the proportion of revenue generated from the hydropower host equipment segment has increased. And as majority of overseas projects have passed the peak season of execution, the newly entered projects were in the early stage of construction and the proportion of revenue generated from the power station engineering services segment decreased significantly.

In 2019, the Company recorded an income of export of RMB5,457.62 million (or 24.24% of the total operating income), decreasing by RMB1,939.78 million over the previous year. The export was dominated by Asia, South America and Africa, in which export to Asia amounting to RMB4,921.79 million while export to South America amounting to RMB242.91 million and export to Africa amounting to RMB127.26 million.

Cost

In 2019, the operating costs of the Company amounted to RMB19,191.31 million, representing a decrease of 15.41% as compared with the corresponding period of last year, mainly due to the decrease in sales scale.

Gross profit and gross profit margin

In 2019, the Company realized a gross profit from operating business of RMB3,324.28 million, representing a year-on-year increase of 4.15%, and a gross profit margin was 14.76%, representing a year-on-year increase of 2.43%. Out of the gross profit, RMB1,480.65 million was attributable to the gross profit from main thermal power equipments, decreasing by RMB189.56 million over the previous year, while the corresponding gross profit margin was 17.74%, representing a year-on-year increase of 3.68%; RMB413.67 million was attributable to the gross profit from main hydropower equipment, increasing by RMB262.36 million over the previous year, while the corresponding gross profit margin was 15.42%, representing a year-on-year increase of 6.55%; RMB94.92 million was attributable to the gross profit from engineering services for power stations, decreasing by RMB158.51 million over the previous year, while the corresponding gross profit margin was 1.74%, representing a year-on-year decrease of 1.68%; RMB162.40 million was attributable to the gross profit from ancillary equipment and supplementary products for power stations, increasing by RMB72.15 million over the previous year, while the corresponding gross profit margin was 13.66%, representing a year-on-year increase of 3.64%; RMB867.36 million was attributable to the gross profit from AC/DC motors and other products and services, increasing by RMB120.38 million over the previous year, while the corresponding gross profit margin was 24.40%, representing a year-on-year decrease of 3.81%;

RMB305.28 million was attributable to the gross profit from nuclear products, increasing by RMB25.53 million over the previous year, while the corresponding gross profit margin was 23.68%, representing a year-on-year increase of 2.78%. The Company's gross profit margin increased, primarily because of the admirable performance in cost reduction.

Expenses for the Period

In 2019, the Company's selling expenses incurred amounted to RMB603.99 million, representing a decrease of RMB127.24 million or 17.40% as compared to the corresponding period of last year, primarily due to the decline in defect elimination cost in collecting receivables during the year; the administrative expenses incurred amounted to RMB1,669.85 million, representing a year-on-year increase of RMB204.68 million or 13.97%, mainly due to a year-on-year increase in labor costs; the research and development expenses incurred amounted to RMB687.52 million, representing a year-on-year increase of RMB95.60 million or 16.15%, mainly due to the increase in the Company's investment in the scientific development and research; the finance expenses incurred amounted to RMB74.19 million, representing a year-on-year increase of RMB38.09 million or 105.52%, mainly due to the decrease in net exchange gain resulted from the changes in exchange rate.

Funding source and borrowing status

The Company financed its operation and development with four major funding sources, namely shareholder's funds, trade receivables from customers, bank borrowings and state-funded entrusted loans. The Company arranges borrowings based on each specific project. Except for some exceptions, loans are usually raised by each of the Company's subsidiary respectively, while prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 31 December 2019, the Company's total borrowings amounted to RMB6,199.88 million (31 December 2018: RMB2,072.91 million), all of which amounts were borrowed from various financial institutions, such as commercial banks and state-funded entrusted loans, at interest rates stipulated by the state. Among those borrowings, the amount repayable within one year amounted to RMB5,634.28 million, representing an increase of RMB3,861.37 million as compared with the beginning of the year, primarily due to the increase of state-funded entrusted loan and supplementary working fund; the borrowings repayable after one year amounted to RMB565.60 million, representing an increase of RMB265.60 million as compared to the beginning of the year. As at 31 December 2019, the Company's borrowings were all in RMB and there was no amount due. The repayment plan has been made for the borrowings that were not due, with no risk of default.

Monetary capital and cash flows

As at 31 December 2019, the monetary capital of the Company was RMB10,072.25 million, representing a decrease of RMB2,471.00 million as compared with the beginning of the year. During the period, the net cash flow generated from operating activities of the Company was RMB-3,394.84 million; the net cash flow from investing activities was RMB-3,092.85 million; net cash flow from financing activities was RMB3,956.30 million. The Company was exposed to the decrease in monetary capital due to the decrease of contract liabilities, increase in investment for invested companies, and other investment activities.

Asset structure and movements

As at 31 December 2019, the total assets of the Company amounted to RMB55,082.67 million, representing a decrease of RMB1,459.32 million or 2.58% as compared to the beginning of the year, out of which RMB45,725.75 million was current assets, representing 83.01% of total assets; and RMB9,356.91 million was non-current assets, representing 16.99% of our total assets.

Liabilities

As at 31 December 2019, total liabilities of the Company amounted to RMB39,226.50 million, representing a decrease of RMB1,006.45 million as compared to the beginning of the year, out of which RMB36,899.20 million was current liabilities, representing 94.07% of total liabilities; and RMB2,327.30 million was non-current liabilities, representing 5.93% of our total liabilities. As at 31 December 2019, the gearing ratio of the Company was 71.21%.

Owners' interests

As at 31 December 2019, the total equity attributable to the owners of the parent company amounted to RMB15,579.64 million, representing an increase of RMB553.36 million as compared to the beginning of the year; the net asset value per share was RMB9.13, representing an increase of RMB0.32 as compared with the beginning of the year. During the period, the return rate on net assets of the Company was 0.69%.

Gearing ratio

As at 31 December 2019, the Company's gearing ratio (non-current liabilities over total shareholders' equity) was 0.15:1, compared with that of 0.12:1 at the beginning of the year.

Contingent liabilities and pledges

As at 31 December 2019, the Company pledged its assets of RMB102.47 million to secure loans for liquidity.

Exposure to fluctuations in exchange rate

Some of the deposits of the Company are denominated in foreign currencies. As at 31 December 2019, the amount of the Company's deposits in foreign currencies was equivalent to RMB411.28 million. The export business and businesses settled in foreign currencies expose the Company to exchange risk.

Use of fund-raising proceeds

As of 31 December 2019, RMB251 million of the fund-raising proceeds (the "Proceeds") from the domestic share subscription conducted by the Company in 2017 has not been utilized. The Company has fully utilized its remaining proceeds from issuance of shares and bonds in previous years, and no other fund-raising activities were proceeded during the year.

The use of the proceeds is as follows:

Intended use of the proceeds	Intended amount of the proceeds used (RMB100 million)	Amount of the proceeds used (RMB100 million)	Remaining amount of the proceeds (RMB100 million)	Intended use time
Investment in a joint venture project on gas turbine	1.8	0.43	1.37	Before 24 October 2026
Investment in a nuclear power technology upgrading project	4.86	3.9	0.96	Before 31 December 2023
Purchase of raw materials for the production and operation of the nuclear power business	3	3	0	
Purchase of raw materials for the production and operation of the gas turbine business	1.47	1.47	0	
Conducting financial leasing business	1.54	1.36	0.18	Before 31 December 2020
Total	<u>12.67</u>	<u>10.16</u>	<u>2.51</u>	

Dividend

The Board does not propose the payment of a final dividend for 2019.

SIGNIFICANT EVENTS AFFECTING THE COMPANY

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

As of 19 July 2019, HEG had received approximately 88.32% valid acceptances under the H Share Offer, and the Acceptance Condition was not satisfied. Accordingly, the H Share Offer has not become unconditional and is lapsed on 19 July 2019.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As of 31 December 2019, none of the directors, supervisors and senior management of the Company had any interest or short position in the shares, underlying shares and debentures (as the case may be) of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (SFO)) which was required to be notified to the Company and the Hong Kong Stock Exchange (including interest or short position which any such director, supervisor or senior management is taken or deemed to have under such provisions of the SFO) pursuant to the SFO or which was required to be recorded in the Register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As of 31 December 2019, the Company entered into no service contract specified in Rule 14 of Appendix 16 of the Listing Rules with Directors and Supervisors of the Company.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

As of 31 December 2019, none of the Directors or Supervisors has any interest, whether directly or indirectly, in the contracts of significance entered into by the Company.

CONTRACTS OF SIGNIFICANCE WITH THE CONTROLLING SHAREHOLDERS OR THEIR SUBSIDIARIES

On 24 December 2019, the Company and HEG entered into the new Financial Services Framework Agreement, pursuant to which the Company will, within three years, provide Harbin Electric Corporation and its subsidiary (the “**Unlisted Harbin Electric Group**”, excluding the Company) with the depository services, loan services and other financial services through the Finance Company, a subsidiary of the Company, at fair and reasonable market prices and on normal commercial terms. In particular, regarding the depository services, no annual caps shall be set for the accumulated maximum daily deposit balance deposited with Finance Company by the Unlisted Harbin Electric Group; regarding the loan services, the cap for the accumulated maximum daily balance of loan services provided by Finance Company to the Unlisted Harbin Electric Group is RMB170,000,000; the annual transaction caps for fees and commissions for other financial services are RMB3,000,000.

On 24 December 2019, the Company entered into the new Products and Services Framework Agreement with HEG, pursuant to which the cross-provision of products and services will be conducted at fair and reasonable market prices and on normal commercial terms between the Company and the Unlisted Harbin Electric Group within the next three years, including (1) the provision of services by the Company to the Unlisted Harbin Electric Group; (2) the provision of services by the Unlisted Harbin Electric Group to the Company; (3) the sale of products by the Company to the Unlisted Harbin Electric Group; and (4) the purchase of products by the Company from the Unlisted Harbin Electric Group. In particular, in each full year during the term of this agreement, the cap for the provision of services by the Company to the Unlisted Harbin Electric Group amounts to RMB2,000,000; the cap for the provision of services by the Unlisted Harbin Electric Group to the Company amounts to RMB72,000,000; the cap for the sale of products by the Company to the Unlisted Harbin Electric Group amounts to RMB170,000,000; and the cap for the purchase of products by the Company from the Unlisted Harbin Electric Group amounts to RMB65,000,000.

For more details, please refer to the announcements published by the Company on the website of the Stock Exchange of Hong Kong Limited on 24 December 2019.

CONTINGENT LIABILITIES – GUARANTEES

As of 31 December 2019, total internal guarantees in favour of the Company made by the Company and its subsidiaries amounted to RMB2,743.90 million. No external guarantee was provided.

PERMITTED INDEMNITY PROVISION

As provided by applicable laws, each director of the Company is entitled to be indemnified by respective companies for all costs, charges, losses, fees and liabilities which arise from or are connected to the execution and performance of their duties according to the Articles of Association of the Company. The provision becomes effective in the financial year ended 31 December 2019 and remains in effect as at the date of this report.

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

SIGNIFICANT INVESTMENT IN SECURITIES

For the year ended 31 December 2019, the Company had no significant investment in securities.

STAFF REMUNERATION, RETIREMENT AND BENEFITS SCHEME

In 2019, the Company continued to deepen its remuneration reform, improve internal the framework of remuneration management policy system, and develop policy toolbox to promote employees' enthusiasm, initiative and creativity. In addition, the Company further increased the salary distribution to its production core staff, key positions with significant contribution and backbone persons, and implemented "blade plan" for core researchers and relevant technicians to stabilize and encourage the research talent team. Moreover, the Company improved salary incentive and restraint system to make a better flexibility for the income distribution of our employees, and realize income distribution matching with economic benefit growth and improvement of labor efficiency, with a view to establishing a harmonious income distribution relationship.

In 2019, the total salaries of the Company amounted to RMB1,627.91 million. The Company has no long-term award scheme for the time being.

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

As of 31 December 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

MAJOR LITIGATION

During 2019, the Company had following major pending litigations:

In February 2019, Harbin Electric International Company Limited (“**HE International**”), a subsidiary of the Company, received a notice calling for responses to civil legal proceedings from Liaoning Shenyang Municipal Intermediate People's Court (“**Shenyang Intermediate**”), since Northern Heavy Industry Group Co., Ltd (“**NHI**”) initiated legal litigation regarding claim under supply contract guarantee and contract payment dispute for Turkey Suma Project of HE International, demanding that HE International refund guarantee claim, and pay outstanding amount under the contract, litigation amount of RMB71,170,945.60 and interest.

On 12 December 2019, the first hearing for litigation for Suma project was held in Shenyang Intermediate Court. HE International and NHI performed evidence cross-examination. At present, litigation for Suma project is pending for the second hearing from Shenyang Intermediate Court.

MODEL CODE

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

CORPORATE GOVERNANCE CODE

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

In 2019, the Company has complied with the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, and adopted recommended best practice set forth therein where appropriate.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements, continuing connected transactions, internal control and risk management of the Company for the year ended 31 December 2019, and discussed with the Board on the financial reporting procedures as well as the internal control system of the Company.

OUTLOOK

In 2020, it is expected that China's power supply and demand will be generally balanced, and power consumption will continue to grow steadily. The country's estimated additional installed power generation capacity of infrastructure is about 120 million kilowatts, of which about 87 million kilowatts of non-fossil energy power generation capacity is put into operation, and the proportion will continue to rise. At the same time, the competition situation in the power generation equipment manufacturing industry is even more severe, and "competitive bidding" has become the norm. Generally speaking, for power generation equipment manufacturing enterprises, opportunities and challenges coexist, and pressure and motivation coexist.

2020 is the concluding year of the "13th Five-Year" Plan, a crucial year to lay a solid foundation for the development of the "14th Five-Year" Plan, as well as a crucial year for the Company to make every possible effort to promote high-quality development in enterprises. Continuing to implement new development philosophy, take the supply-side structural reform as the main task, take enterprise development strategy as the overarching principle, and focus on transformation development, the Company will make great effort to do well in market development, cash flow management and control, the development of new product and new industry, upgrading of traditional industry and technological innovation, accelerate high-quality development, and strive to build itself into a world-class equipment manufacturing enterprise with global competitiveness.

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

Harbin, PRC, 24 April 2020

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