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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)

(S 证 申 市 : 1133)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

The Board of Directors of Harbin Electric Company Limited (the “Company”) is pleased to announce the audited operating results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2017, which were prepared in accordance with the China Accounting Standards for Business Enterprises.

CONSOLIDATION BALANCE SHEET

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

Item	Notes	Closing balance	Opening balance
Current assets:			
Cash and bank		16,165,238,281.47	18,089,913,079.54
△ Settlement reserve			
△ Due from banks and other financial institutions			
Financial assets at fair value through profit and loss			
Derivative assets			
Notes receivable		4,362,451,678.86	3,806,467,011.80
Accounts receivable	2	10,588,586,288.14	10,060,235,974.92
Advances to suppliers		5,389,851,256.88	6,037,338,085.19
△ Premium receivable			
△ Reinsurance premium receivable			
△ Reserve receivable for reinsurance			
Interest receivable		3,277,397.20	2,295,674.89
Dividends receivable		144,453.39	241,249.61
Other receivables		953,565,790.29	1,058,989,580.38
△ Securities purchased under agreements to resell			
Inventories		15,546,042,302.41	16,424,268,723.05
Including: Raw materials		3,480,285,176.50	3,146,035,799.07
Merchandise inventories (finished goods)		426,733,313.77	417,571,154.64
Held-for-sale assets			
Non-current assets due within one year			
Other current assets		<u>3,009,630,060.28</u>	<u>2,138,487,236.92</u>
Total current assets		<u>56,018,787,508.92</u>	<u>57,618,236,616.30</u>

CONSOLIDATION BALANCE SHEET (CONTINUED)*(Unless otherwise stated, all amounts are denominated in Renminbi)*

Item	Notes	Closing balance	Opening balance
Non-current assets:			
△ Loans and advances		492,068.11	6,551,087.18
Available-for-sale financial assets		85,895,000.00	90,595,000.00
Held-to-maturity investments			
Long-term receivables		2,831,982.28	4,566,613.71
Long-term equity investments		202,785,739.51	214,352,573.92
Investment property		230,786,722.78	27,972,824.42
Fixed asset-original cost		13,435,772,906.09	12,802,272,968.29
Less: accumulated depreciation		7,426,533,734.02	6,952,523,075.51
Fixed asset-original cost net of depreciation		6,009,239,172.07	5,849,749,892.78
Less: provision for impairment of fixed assets		48,520,955.05	20,074,908.71
Fixed asset-net value		5,960,718,217.02	5,829,674,984.07
Construction in progress		860,049,881.44	835,008,401.64
Construction materials		3,719,461.29	835,204.92
Fixed assets pending for disposal		201,003.47	
Productive biological assets			
Oil and gas assets			
Intangible assets		771,625,366.77	650,245,362.23
Development disbursements		239,205,849.67	197,203,075.79
Goodwill			
Long-term deferred expenses		30,412,529.89	40,892,704.71
Deferred tax assets		430,581,741.83	351,373,269.10
Other non-current assets			
Including: Special materials for Government			
Total non-current assets		8,819,305,564.06	8,249,271,101.69
Total assets		64,838,093,072.98	65,867,507,717.99

CONSOLIDATION BALANCE SHEET (CONTINUED)

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

Item	Notes	Closing balance	Opening balance
Current liabilities:			
Short-term borrowings		3,083,568,542.78	2,089,338,408.88
△ Borrowings from central bank			
△ Deposits and placements from other financial institutions		803,027,749.69	2,674,062,146.65
△ Placement from banks and other financial institutions			
Financial liabilities at fair value through profit and loss			
Derivative financial liabilities			
Notes payable		5,479,804,293.43	6,093,183,408.50
Accounts payable	3	14,051,708,904.60	12,234,254,358.75
Advances from customers		19,691,124,928.12	22,703,536,765.04
△ Securities sold under agreement to repurchase			
△ Fees and commissions payable			
Employee benefits payable		319,715,914.16	184,279,812.72
Including: Salary payable		91,949,227.59	471,789.44
Welfare benefits payable			
[#] Including: Employee bonus and welfare fund			
Taxes and surcharges payable		240,442,949.52	367,490,729.90
Including: taxes payable excluding surcharges		227,313,951.19	345,874,898.24
Interest payable		125,099,549.75	136,755,117.01
Dividends payable		3,569,638.20	6,936,931.73
Other payables		277,646,983.05	307,070,933.98
△ Reinsurance amounts payable			
△ Reserve of insurance contract			
△ Securities brokering			
△ Securities underwriting			
Held-for-sale liabilities			
Non-current liabilities due within one year		2,999,707,500.00	
Other current liabilities		134,893.80	134,893.80
Total current liabilities		47,075,551,847.10	46,797,043,506.96

CONSOLIDATION BALANCE SHEET (CONTINUED)*(Unless otherwise stated, all amounts are denominated in Renminbi)*

Item	<i>Notes</i>	Closing balance	Opening balance
Non-current liabilities:			
Long-term borrowings		200,000,000.00	
Bonds payable			2,997,952,500.00
Long-term payable		1,000,000.00	1,000,000.00
Long-term employee benefits payable		141,039,180.93	80,192,909.50
Payables for specific projects			
Provision for liabilities		484,953,994.29	485,919,894.29
Deferred income		631,358,782.54	689,345,509.25
Deferred tax liabilities		154,756,614.71	173,638,642.51
Other non-current liabilities		7,280,974.79	
Including: authorized reserve fund			
Total non-current liabilities		1,620,389,547.26	4,428,049,455.55
Total liabilities		48,695,941,394.36	51,225,092,962.51

CONSOLIDATION BALANCE SHEET (CONTINUED)*(Unless otherwise stated, all amounts are denominated in Renminbi)*

Item	Notes	Closing balance	Opening balance
Owner's Equity:			
Paid-in capital (or share capital)		1,706,523,000.00	1,376,806,000.00
State-owned capital		1,030,952,000.00	701,235,000.00
Including: state-owned legal person's capital		1,030,952,000.00	701,235,000.00
Collectively owned capital			
Private capital			
Including: individual capital			
Foreign capital		675,571,000.00	675,571,000.00
#Less: payback capital			
Paid-in capital (or share capital)-net value		1,706,523,000.00	1,376,806,000.00
Other equity instruments			
Including: Preferred stock			
Perpetual debt			
Capital reserve		3,690,197,230.17	2,764,208,480.41
Less: Treasury shares			
Other comprehensive income		18,514,209.22	-6,938,794.70
Including: Currency translation reserve		-691,329.32	3,417,340.36
Specialized reserve		19,377,426.96	15,801,148.88
Surplus reserve		786,529,945.86	786,529,945.86
Including: Statutory surplus reserve		786,529,945.86	786,529,945.86
Other surplus reserve			
#Reserve fund			
#Corporate development fund			
#Return of investment			
△ General risk reserve			
Retained earnings	4	8,649,609,089.09	8,496,686,529.09
Total Equity attributable to parent company		14,870,750,901.30	13,433,093,309.54
Minority interests		1,271,400,777.32	1,209,321,445.94
Total owner's equity		16,142,151,678.62	14,642,414,755.48
Total liabilities and owner's equity		64,838,093,072.98	65,867,507,717.99

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION INCOME STATEMENTS

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

Items	Notes	Current Period	Prior Period
1.Total operating revenue		31,980,647,049.20	31,293,016,034.46
Including: Operating revenue	5	31,540,323,856.38	30,929,420,698.72
△ Interest income		440,314,100.89	363,414,918.10
△ Premium earned			
△ Fees and commissions income		9,091.93	180,417.64
2.Total operating cost		31,704,374,594.40	30,306,121,185.92
Including: Operating cost	5	27,267,954,227.34	26,626,875,253.92
△ Interest expenses		24,780,211.04	6,358,429.84
△ Fees and commissions expenses		15,292.72	19,292.43
△ Cash surrender amount			
△ Net expenses of claim settlement			
△ Net provisions for insurance contract reserves			
△ Policy dividend expenses			
△ Reinsurance expenses			
Business taxes and surcharges		178,624,849.16	195,059,540.33
Selling expenses		639,375,988.88	638,233,891.97
Administrative expenses		2,253,706,207.85	2,136,693,904.16
Including: Research and development expenses		291,502,274.61	295,945,136.66
Funds for Party construction work			
Finance expenses		322,789,200.85	127,505,394.80
Including: Interest expenses		241,715,596.09	273,617,831.40
Interest income		47,822,335.41	59,198,957.71
Net loss on foreign exchange (“-” for net gain)		100,183,554.29	-87,277,521.94
Impairment on assets		1,017,128,616.56	575,375,478.47
Others			
Add: Gain from fair-value changes (“-” for loss)		-12,995,817.33	9,110,127.34
Investment income (“-” for loss)		121,466,718.09	-294,543,913.17
Including: Investment income from associates and joint ventures		26,360,761.31	1,783,571.40
Asset disposal income (“-” for loss)		3,627,423.23	5,719,256.88
△ Gain on foreign exchange (“-” for loss)		496.06	
Other income		45,731,908.93	

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

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

Items	Notes	Current Period	Prior Period
3. Operating profits (“–” for loss)		434,103,183.78	707,180,319.59
Add: Non-operating income		72,224,866.35	112,937,843.72
Including: Gain from disposal of non-current assets			
Gain from exchange of non-monetary assets			
Government grants		50,539,789.12	102,771,108.59
Gain from debt restructuring		325,314.71	
Less: Non-operating expenses		162,961,645.20	162,949,022.36
Including: Loss on disposal of non-current assets		3,253,368.68	
Loss on exchange of non-monetary assets			
Loss on debt restructuring			
4. Profit before tax (“–” for loss)		343,366,404.93	657,169,140.95
Less: Income tax	6	82,397,811.03	165,575,300.09
5. Net profit (“–” for net loss)		260,968,593.90	491,593,840.86
(1) Classified by business continuity		260,968,593.90	491,593,840.86
1. Continuing net profit (net loss is marked with “–”)		234,628,922.24	495,017,033.37
2. Discontinued operating net profit (net loss is marked by “–”)		26,339,671.66	-3,423,192.51
(2) Classified by ownership		260,968,593.90	491,593,840.86
1. Net profit attributable to shareholders of the parent company		194,226,740.00	413,282,692.39
2. Minority shareholders’ profit and loss		66,741,853.90	78,311,148.47

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

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

Items	Notes	Current Period	Prior Period
6. Net other comprehensive income after tax		27,890,241.37	314,099,905.44
Net other comprehensive income attributable to owners of the parent company after tax		25,453,003.92	314,099,905.44
(1) Other comprehensive income that cannot be reclassified into profit or loss in the future			
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			
(2) Other comprehensive income that will be reclassified into profit or loss in the future		25,453,003.92	314,099,905.44
1. Share of other comprehensive income (that will be reclassified to profit or loss subsequently) of investees accounted for using equity method			
2. Gains and losses arising from changes in fair value of available-for-sale financial assets		18,515,228.86	
3. Gains and losses from held-to-maturity investment reclassified to available-for-sale financial assets			
4. Effective part of cash flow hedge gains and losses		11,046,444.74	311,043,666.81
5. Translation differences in foreign currency financial statements		-4,108,669.68	3,056,238.63
Net post-tax amount of other comprehensive income attributable to minority shareholders		2,437,237.45	
7. Total comprehensive income		288,858,835.27	805,693,746.30
Total comprehensive income attributable to owners of the parent		219,679,743.92	727,382,597.83
Total consolidated income attributable to minority shareholders		69,179,091.35	78,311,148.47
8. Earnings per share:			
(1) Basic earnings per share	7	0.14	0.30
(2) Diluted earnings per share	7	0.14	0.30

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION CASH FLOW STATEMENT

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

Items	Notes	Current Period	Prior Period
1. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		28,225,962,462.60	32,454,475,137.73
△ Net increase in deposits and placements from financial institutions		-1,871,034,396.96	1,042,628,885.32
△ Net increase in due to central banks			
△ Net increase in placement from other financial institutions			
△ 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		447,167,753.39	360,306,052.94
△ Net increase of placement from banks and other financial institutions			
△ Net increase in repurchasing			
Taxes and surcharges refunds		482,180,368.30	528,992,962.40
Other cash receipts related to operating activities		546,476,733.08	455,117,727.21
Subtotal cash inflows from operating activities		27,830,752,920.41	34,841,520,765.60
Cash paid for goods and services		24,402,799,893.73	26,877,535,040.52
△ Net increase in loans and advances		-6,059,019.07	-41,024,329.39
△ Net increase in deposits with central banks and other financial institutions		-36,795,414.91	-42,713,408.29
△ Cash paid for claim settlements on original insurance contracts			
△ Cash paid for interest, fees and commissions		28,321,122.91	
△ Cash paid for policy dividends			
Cash paid to and for employees		2,815,255,957.74	2,927,069,966.14
Taxes and surcharges cash payments		1,312,144,726.28	1,996,200,537.44
Other cash payments related to operating activities		2,007,334,731.37	1,536,678,042.76
Subtotal cash outflows from operating activities		30,523,001,998.05	33,253,745,849.18
Net cash flows from operating activities		-2,692,249,077.64	1,587,774,916.42

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)*(Unless otherwise stated, all amounts are denominated in Renminbi)*

Items	Notes	Current Period	Prior Period
2. Cash flows from investing activities:			
Cash received from withdraw of investments		3,390,000,000.00	3,727,874,366.36
Cash received from investment income		207,910,838.39	-281,993,360.94
Net cash received from disposal of fixed assets,intangible assets and other long-term assets		7,040,342.41	875,457.32
Net cash received from disposal of subsidiaries and other business units			-34,408,652.70
Other cash receipts related to investing activities		8,143,264.60	
Subtotal cash inflows from investing activities		3,613,094,445.40	3,412,347,810.04
Cash paid for fixed assets,intangible assets and other long-term assets		1,029,227,966.42	1,000,810,298.99
Cash payments for investments		4,090,000,000.00	2,701,369,891.42
△ Net increase in pledged loans			
Net cash paid for acquiring subsidiaries and other business units			
Other cash payments related to investing activities		2,983,041.09	252,473.42
Subtotal cash outflows from investing activities		5,122,211,007.51	3,702,432,663.83
Net cash flows from investing activities		-1,509,116,562.11	-290,084,853.79

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)*(Unless otherwise stated, all amounts are denominated in Renminbi)*

Items	Notes	Current Period	Prior Period
3. Cash flows from financing activities:			
Cash received from investments by others		1,269,999,456.00	
Including: Cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings		1,410,490,000.00	345,560,000.00
△Cash received from bond issues			
Other cash receipts related to other financing activities		6,970,000.00	
Subtotal cash inflows from financing activities		2,687,459,456.00	345,560,000.00
Cash repayments for debts		136,076,363.31	1,352,011,068.04
Cash payments for distribution of dividends, profit and interest expenses		178,148,351.58	322,387,696.62
Including: Dividends or profit paid by subsidiaries to minority shareholders			
Other cash payments related to financing activities		79,404,090.85	
Subtotal cash outflows from financing activities		393,628,805.74	1,674,398,764.66
Net cash flows from financing activities		2,293,830,650.26	-1,328,838,764.66
4. Effect of foreign exchange rate changes on cash and cash equivalents		-90,313,766.92	56,791,885.68
5. Net increase in cash and cash equivalents		-1,997,848,756.41	25,643,183.65
Add: beginning balance of cash and cash equivalents		17,204,139,648.41	17,178,496,464.76
6. Ending balance of cash and cash equivalents		15,206,290,892.00	17,204,139,648.41

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (Unless otherwise stated, all amounts are denominated in Renminbi)

Items	Current Period													
	Equity attributable to parent company													
	Other equity instruments				Other									
	Paid-in capital	Preferred stock	Perpetual debt	Others	Capital reserve	Less: treasury shares	comprehensive income	Specialized reserve	Surplus reserve	△General risk provision	Retained earnings	Subtotal	Minority interests	Total owner's equity
1. Ending balance of last year	1,376,806,000.00				2,764,208,480.41		-6,938,794.70	15,801,148.88	786,529,945.86		8,496,686,529.09	13,433,093,309.54	1,209,321,445.94	14,642,414,755.48
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	1,376,806,000.00				2,764,208,480.41		-6,938,794.70	15,801,148.88	786,529,945.86		8,496,686,529.09	13,433,093,309.54	1,209,321,445.94	14,642,414,755.48
3. Increase/decrease for current year("-" for decrease)														
(I) Total comprehensive income	329,717,000.00				925,988,749.76		25,453,003.92	3,576,278.08			152,922,560.00	1,437,657,591.76	62,079,331.38	1,499,736,923.14
(II) Owner's contributions and withdrawals of capital	329,717,000.00				925,988,749.76		25,453,003.92				194,226,740.00	219,679,743.92	69,179,091.35	288,858,835.27
1. Capital contributed by owners	329,717,000.00				940,282,456.00						1,255,705,749.76	1,255,705,749.76		1,255,705,749.76
2. Capital contributed by other equity instruments holders											1,269,999,456.00	1,269,999,456.00		1,269,999,456.00
3. Share-based payment recorded in owner's equity														
4. Others														
(III) 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														
(IV) Transfer within owner's equity														
1. Capital reserve transferred to paid-in capital (or share capital)														
2. Surplus reserve transferred to paid-in capital (or share capital)														
3. Recover of loss by surplus reserve														
4. Changes in remeasurement of defined benefit net obligations/assets														
5. Others														
(V) Accrual and utilization of specialized reserve														
1. Accrual of specialized reserve														
2. Utilization of specialized reserve														
(VI) Others														
4. Ending balance of current year	1,706,523,000.00				3,690,197,230.17		18,514,206.22	19,377,426.96	786,529,945.86		8,649,609,089.09	14,457,750,901.30	1,271,400,777.32	16,142,151,678.62

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (CONTINUED) *(Unless otherwise stated, all amounts are denominated in Renminbi)*

Items	Prior Period													
	Equity attributable to parent company													
	Other equity instruments													
	Paid-in capital	Preferred stock	Perpetual debt	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	△ General risk provision	Retained earnings	Subtotal	Minority interests	Total owner's equity
1. Ending balance of last year	1,376,806,000.00				2,749,914,774.17		-321,038,700.14	11,122,854.40	786,529,945.86	8,104,055,926.70	12,707,390,800.99	1,209,491,054.28	13,916,881,855.27	
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	1,376,806,000.00				2,749,914,774.17		-321,038,700.14	11,122,854.40	786,529,945.86	8,104,055,926.70	12,707,390,800.99	1,209,491,054.28	13,916,881,855.27	
3. Increase/decrease for current year ("+" for decrease)														
(I) Total comprehensive income														
(II) Owner's contributions and withdrawals of capital														
1. Capital contributed by owners					14,293,706.24		314,099,905.44	4,678,294.48		392,630,602.39	725,702,508.55	78,311,148.47	-169,608.34	725,532,900.21
2. Capital contributed by other equity instruments holders					14,293,706.24		314,099,905.44			413,282,692.39	727,382,597.83	-72,112,135.00	805,693,746.30	805,693,746.30
3. Share-based payment recorded in owner's equity														-57,818,428.76
4. Others														-27,751,309.73
(III) 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 owners/shareholder														
4. Others														
(IV) Transfer within owner's equity														
1. Capital reserve transferred to paid-in capital (or share capital)														
2. Surplus reserve transferred to paid-in capital (or share capital)														
3. Recover of loss by surplus reserve														
4. Changes in remeasurement of defined benefit net obligations/assets														
5. Others														
(V) Accrual and utilization of specialized reserve														
1. Accrual of specialized reserve														
2. Utilization of specialized reserve														
(VI) Others														
4. Ending balance of current year	1,376,806,000.00				2,764,208,480.41		-6,938,794.70	15,801,148.88	786,529,945.86	8,496,686,529.09	13,433,093,309.54	1,209,321,445.94	14,642,414,755.48	

Corporate representative:

Chief Accountant:

Accounting Supervisor:

2017 ANNUAL RESULTS ANNOUNCEMENT

(Except for special notes, the amount of units 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. ACCOUNT RECEIVABLE

Items	Closing balance	Opening balance
Account receivable	16,222,531,095.81	15,366,216,515.36
Less: bad-debt provision	<u>5,633,944,807.67</u>	<u>5,305,980,540.44</u>
Net account receivable	<u><u>10,588,586,288.14</u></u>	<u><u>10,060,235,974.92</u></u>

(1) The aging analysis for accounts receivable

Aging	Closing balance Amount	Opening balance Amount
Within 1 year	6,006,528,718.46	5,463,345,422.15
1 to 2 years	2,332,095,905.85	2,397,645,241.72
2 to 3 years	1,145,190,030.50	1,345,081,304.31
Over 3 years	1,104,771,633.33	854,164,006.74
Net value	<u>10,588,586,288.14</u>	<u>10,060,235,974.92</u>

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

III. ACCOUNT PAYABLE

Aging	Closing balance	Opening balance
Within 1 year	11,359,184,726.32	10,083,783,935.67
1 to 2 years	1,328,277,162.52	1,241,059,335.61
2 to 3 years	586,962,812.92	485,773,094.77
Over 3 years	777,284,202.84	423,637,992.70
Total	<u>14,051,708,904.60</u>	<u>12,234,254,358.75</u>

IV. UNDISTRIBUTED PROFIT

Items	Current period
Before adjustment: Undistributed profit at the end of prior period	8,496,686,529.09
Adjustment: Total undistributed profit at the beginning of the year (Increase +, decrease -)	
After Adjustment: Undistributed profit at the beginning of the year	8,496,686,529.09
Add: Net profit attributable to owners of the parent company for the period	194,226,740.00
Less: Appropriation of statutory surplus reserve	
Appropriation of discretionary surplus reserve	
Appropriation of general risk reserve	
Dividend payable on ordinary shares	41,304,180.00
Dividend on ordinary share converted to share capital	
Others	
Undistributed profit at the end of the period	<u><u>8,649,609,089.09</u></u>

The Company's distribution of ordinary share dividends to shareholders during the year was made in accordance with the 2016 after-tax profit distribution plan which was considered and passed at the 2016 annual general meeting of the Company held on 26 May 2017. Based on the Company's total share capital of 1,376,806,000 shares at the end of 2016, the Company declared a final dividend of RMB0.03 per share (including the applicable tax rate), with total final dividend of RMB41,304,180.00 for the year of 2016 (including tax).

V. OPERATING INCOME AND OPERATING COST

Items	Amount of current period		Amount of the prior period	
	Income	Cost	Income	Cost
Main business	31,345,884,860.70	27,104,569,528.75	30,749,840,369.47	26,480,745,654.15
Other business	194,438,995.68	163,384,698.59	179,580,329.25	146,129,599.77
Total	<u><u>31,540,323,856.38</u></u>	<u><u>27,267,954,227.34</u></u>	<u><u>30,929,420,698.72</u></u>	<u><u>26,626,875,253.92</u></u>

VI. INCOME TAX EXPENSE

Items	Current period	Prior period
Current income tax calculated based on tax law and related regulations	163,258,837.00	194,055,270.91
Adjustment to deferred income tax	-80,861,025.97	-28,479,970.82
Total	82,397,811.03	165,575,300.09

VII. EARNINGS PER SHARE:

(1) Basic Earnings Per share

Item	This year	Previous year
Consolidated net profit attributable to ordinary shareholders of the Company	194,226,740.00	413,282,692.39
Consolidated net profit attributable to ordinary shareholders of the Company (After deducting non-recurring gains and losses)	110,097,146.85	347,697,195.47
Weighted average number of outstanding ordinary shares issued by the parent company	1,376,806,000.00	1,376,806,000.00
Diluted earnings per share (Yuan per share)	0.1411	0.3002
Diluted earnings per share (Yuan per share) (After deducting non-recurring gains and losses)	0.0800	0.2525

The calculation of weighted average number of ordinary shares is as follows:

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

(2) Diluted Earnings Per share

Item	This year	Previous year
Adjusted net profit attributable to ordinary shareholders of the parent company	194,226,740.00	413,282,692.39
Adjusted net profit attributable to ordinary shareholders of the parent company (After deducting non-recurring gains and losses)	110,097,146.85	347,697,195.47
Weighted average number of outstanding ordinary shares issued by the Company after adjustment	1,376,806,000.00	1,376,806,000.00
Diluted Earnings Per share (Yuan per share)	0.1411	0.3002
Diluted Earnings Per share (Yuan per share) (After deducting non-recurring gains and losses)	0.0800	0.2525

VIII. DIVISIONS INFORMATION

(1) The assets, liabilities and income of divisions

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

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
31 Dec 2016							
Reportable segment assets	38,030,404,792.05	5,979,796,389.77	7,675,231,930.97	3,320,119,102.81	7,678,373,899.76	6,643,649,020.23	69,327,575,135.59
Including: increase the amount of construction in progress in the current period	229,212,548.60	10,498,974.32	1,251,692.06	19,038,526.59	656,516,740.72	196,262,172.34	1,112,780,654.62
Purchase of fixed assets and intangible assets	79,651,812.65	3,247,138.64	10,601,389.17	12,379,539.86	17,761,197.98	19,696,503.26	143,337,581.56
Reportable segment liabilities	<u>31,926,028,088.07</u>	<u>3,511,695,625.85</u>	<u>6,841,646,490.62</u>	<u>2,557,255,351.24</u>	<u>5,999,714,106.18</u>	<u>5,906,267,939.92</u>	<u>56,742,607,601.88</u>
Jan to Dec 2016							
Segment income							
Income from external customers	12,169,545,679.76	2,484,169,071.08	9,912,653,082.76	1,437,705,553.48	2,009,615,922.05	2,915,731,389.59	30,929,420,698.72
Income between segment	1,887,141,826.71	92,338,063.55	22,105,096.57	2,001,584,986.83			
Reportable segment income	14,056,687,506.47	2,484,169,071.08	10,004,991,146.31	1,437,705,553.48	2,009,615,922.05	2,937,836,486.16	32,931,005,685.55
Reportable segment gross margin	<u>2,268,490,756.14</u>	<u>189,791,905.98</u>	<u>791,174,419.30</u>	<u>228,038,945.25</u>	<u>291,819,627.59</u>	<u>519,484,410.19</u>	<u>4,288,800,064.45</u>

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

Items	Closing balance	Opening balance
Assets		
Reportable segment assets	70,201,843,933.22	69,327,575,135.59
Offset segment related transaction	-20,122,713,238.83	-19,045,066,245.01
Reportable segment net assets	50,079,130,694.39	50,282,508,890.58
Deferred tax assets	430,581,741.83	351,373,269.10
Other non-current assets		
Financial asset at fair value through profit or loss		
Restricted and pledged bank borrowing		
Bank deposit	12,155,831,808.52	13,700,127,972.66
Central bank deposit	747,561,319.78	784,356,734.69
Cash and cash equivalents	107,033,625.67	9,428,115.83
Unallocated head office and corporate assets	1,317,953,882.79	739,712,735.13
Total assets	<u>64,838,093,072.98</u>	<u>65,867,507,717.99</u>

Items	Closing balance	Opening balance
Liabilities		
Reportable segment liabilities	56,363,147,678.61	56,742,607,601.91
Offset segment related transaction	-8,721,527,596.46	-8,566,004,447.68
Reportable segment net liabilities	47,641,620,082.15	48,176,603,154.23
Tax payable	240,442,949.52	367,490,729.90
Deferred tax liabilities	7,280,974.79	
Unallocated head office and corporate liabilities	806,597,387.90	2,680,999,078.38
Total liabilities	48,695,941,394.36	51,225,092,962.51

Items	Current period	Previous period
Income		
Income from external customers	31,540,323,856.38	30,929,420,698.72
Income between segment	2,415,688,297.31	2,001,584,986.83
Reportable segment income	33,956,012,153.69	32,931,005,685.55
Reportable segment gross margin	4,354,089,555.24	4,288,800,064.45
Offset losses between segment	81,719,926.20	-13,745,380.35
Reportable segment gross margin from external customers of the Group	4,272,369,629.04	4,302,545,444.80
Long-term equity investment gain based on equity method	26,360,761.31	16,019,530.10
Interest income	488,136,436.30	422,613,875.81
PRC government grants	96,282,405.05	102,771,108.59
Gains and loss from financial asset at fair value through profit or loss	-11,399,680.48	-5,807,970.07
Financial liabilities at fair value through profit or loss – cash flow hedges		
Interest expense	266,495,807.13	279,976,261.24
Provisions for impairment loss of long-term assets such as fixed assets and intangible assets during this period	29,642,866.59	28,413,362.62
Unallocated other income and net income	97,359,627.28	103,950,550.06
Unallocated head office and corporate expenses	4,329,604,099.85	3,976,533,774.48
Total profit	343,366,404.93	657,169,140.95

(3) Geographical information

Items	Revenues from external customers	
	2017	2016
1. China (domicile)	20,937,172,169.16	20,827,780,149.18
2. Overseas:		
– Islamic Republic of Pakistan	3,883,858,635.49	2,736,523,125.80
– The Republic of Turkey	1,771,972,533.17	2,082,664,891.96
– The United Arab Emirates		1,687,649,086.59
– The Republic of Ecuador	1,164,629,635.62	2,351,295,259.49
– People's Republic of Bangladesh	617,243,022.29	631,604,076.94
– The Republic of Indonesia	314,662,168.56	909,610,140.27
– Other countries	1,163,136,605.50	1,389,943,055.08
Overseas subtotal	10,603,151,687.22	10,101,640,549.54
Total	31,540,323,856.38	30,929,420,698.72

IX. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Investee	Opening balance	The current period changes							Closing balance	Provision for impairment loss for the period	Impairment provision at the end of the period
		Increase	Decrease	Recognised investment profit and loss under the equity method	Other comprehensive income adjustment	Other equity changes	Declaration of dividends or profits	Others			
1. Associated enterprise											
General Electric – Harbin Power Services (Qinhuangdao) Company Limited	128,304,838.06			24,466,436.81			17,767,425.00		135,003,849.87		
Huludao Binhai Hydro Power Company Limited	51,265,399.11								51,265,399.11	1,366,428.73	1,366,428.73
Harbin Boiler & Container Company Limited	16,654,808.75		16,654,808.75								
Harbin HE Liling Hydropower Equipment New Technology Development Co., Ltd	6,426,112.01			144,379.73					6,570,491.74		
Harbin Huitong Power Engineering Company Limited	5,646,706.53			2,285,956.32			2,108,933.24		5,823,729.61		
Heilongjiang Harbin Hydropower Development Company Limited	4,777,074.83			-926,852.68					3,850,222.15		
Harbin HE Petrol Station Co., Ltd.	1,277,634.63			390,841.13			30,000.00		1,638,475.76		
ACWA Power Harbin Holdings Limited		53,375.27							53,375.27	53,375.27	53,375.27
Total	214,352,573.92	53,375.27	16,654,808.75	26,360,761.31			19,906,358.24		204,205,543.51	1,419,804.00	1,419,804.00

X. NET CURRENT ASSETS

Items	Closing balance	Opening balance
Current assets	56,018,787,508.92	57,618,236,616.30
Less: current liabilities	<u>47,075,551,847.10</u>	<u>46,797,043,506.96</u>
Net current assets	<u>8,943,235,661.82</u>	<u>10,821,193,109.34</u>

XI. TOTAL ASSETS LESS CURRENT LIABILITIES

Items	Closing balance	Opening balance
Total assets	64,838,093,072.98	65,867,507,717.99
Less: current liabilities	<u>47,075,551,847.10</u>	<u>46,797,043,506.96</u>
Total assets less current liabilities	<u>17,762,541,225.88</u>	<u>19,070,464,211.03</u>

XII. DIVIDEND

Pursuant to 2017 profit distribution plan considered and passed at the Tenth Meeting of the Eighth Session of the Board of Directors of the Company, the Board declared 2017 final dividend of RMB0.015 per share (including the applicable tax rate).

MANAGEMENT DISCUSSION AND ANALYSIS

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

MACRO-ECONOMY AND INDUSTRY DEVELOPMENT

In recent years, China's economic development has made historic achievements and reform, which provides significant prerequisites for reform and development in other fields. With entering a new era, China's economy has shifted from a stage of high-speed growth to high-quality development.

In 2017, the power generation installed structure showed an obviously cleaning trend in China. By the end of the year, the national power generation installed capacity was 1.78 billion KW, representing an increase of 7.6 % over the corresponding period last year. Among them, the installed capacity of non-fossil energy power generation was 690 million KW, accounting for 38.7 % of the total installed power generation capacity, representing an increase of 2.1% over the previous year. In 2017, newly increased power generation installed capacity registered 133.72 million KW across China, of which 89.88 million KW were contributed to by non-fossil energy, and all have reached record high levels. For the entire year, the newly increased hydropower installed capacity reached 12.87 million KW, including 2 million KW contributed to by pumped storage; the newly increased grid-connected wind power installed capacity totaled up to 19.52 million KW; the newly increased grid-connected solar power generation installed capacity were 53.38 million KW, with an increase of 21.67 million KW; and newly increased thermal power installed amounted to 38.55 million KW, representing a year-on-year decrease of 1.42 million KW.

With development of the world economy and advances of global science and technology, the global mode of energy development is experiencing tremendous changes: the low-carbon and green clean energy consumption mode is gradually forming and renewable energy has risen as the main battlefield where domestic and foreign power generation equipment manufacturing industries compete in the future. As China's economic development moves forward from the high-speed growth stage to the high-quality growth one and the country is steadily pressing ahead with its supply-side structural reform, energy structure adjustment, technological revolution and capacity cutting efforts, China's power industry has entered a new stage of development which is clean and low-carbon, safe and efficient, flexible and intelligent. The proportion of thermal power generation continues to decline, thermal power enterprises are confronted with grave operation; hydropower generation maintains low-speed growth; wind power and solar power generation continue to take a lead and leaves ample room for development; the cases of wind and PV power curtailment are obviously improved; nuclear power construction, approval and commencement is expected to speed up, still with room for development in terms of installed capacity. At the same time, the pattern of the power industry dominated by renewable energy, distributed energy, microgrids, smart grids and other elements is gradually in the making and will witness rapid development.

PRODUCTION AND OPERATION

Overview

In 2017, the Group forged ahead to crack down on difficulties during reform and made great endeavors to advance transformation and upgrading; in this year, the Group also pitched in against a freezing winter and took the initiative for changes. All of the Group's leaders and workers made concerted efforts to overcome difficulties. In doing so, the Group's control capability has been significantly enhanced. Our product quality has been continuously advanced, reform has been deepened and rolled out in all aspects, transformation and upgrading has been fully launched, and the operation indicators have been fully completed.

New contracts

Facing a complex and challenging environment in both the PRC and the rest of the world during the year 2017, the Group made every endeavor to open up the market by giving full rein to its advantages of concentrated marketing and industrial operation, thereby realizing RMB34.162 billion worth of duly signed contracts (RMB34.485 billion in 2016), of which RMB14.828 billion (or 43.40% of total contract value) for thermal power equipment, RMB5.504 billion (or 16.11% of total contract value) for hydropower equipment, RMB6.819 billion (or 19.96% of total contract value) for nuclear power equipment, RMB1.322 billion (or 3.87% of total contract value) for steam equipment, RMB3.410 billion (or 9.98% of total contract value) for power stations, and RMB2.279 billion (or 6.67% of total contract value) for other products.

Thermal power industry: Domestically, the demand for newly built units remained sluggish, while energy conservation, emission reduction and cogeneration abounded with new market opportunities, and construction of small and medium-sized power stations were still active; the international market competition was increasingly fierce, with distressed demand for large-capacity units yet larger potential for small and medium-sized ones. In 2017, the Group presented prominent advantages in concentrated marketing, and won the bid for the only two sets of 1,000 MW ultra-supercritical generators of the five major electric power conglomerates in connection with Steam Turbines and Steam Turbine Generators Project of Datang Xinyu, which made its market share of steam turbines and steam turbine generators achieve 43% and 41% respectively, ranking the first in China and that of the boiler 36%. At the same time, the Group strengthened the market development of small and medium-sized units, regained the important markets that were previously ignored, and successively obtained a number of projects with a single-unit capacity of 60–200 MW, which provided strong support for the company to survive the severe winter in the thermal power market.

Hydropower industry: In 2017, the hydropower market ushered in the peak of development in terms of pumped storage; the Group was awarded Shandong Wendeng Pumped Storage Project and Fujian Zhouning Pumped Storage Project with a total of 10 sets of 300 thousand KW in this regard, with its market share being 24.4%. The contract value registered RMB1.06 billion from around the globe, representing an increase of 30% year on year, signing Ethiopian Millennium EPC Project and four sets of generators with a total of 112,500 KW in connection with Guinea Souapiti Project.

Nuclear power industry: In 2017, no new nuclear power project was approved in China, and meanwhile, AP 1000 projects were suspended in large quantities and there were a few new bidding projects. However, parts of orders of the Group awarded in previous years took effect during the year. In light of new bidding projects, the Group realized its successful rates in the bidding of evaporators and main nuclear pumps, being 33% and 42% respectively and won the sole China Nuclear ACP100 Small Modular Reactor projects in Conventional Island.

Steam power industry: While the domestic market demand remained concentrated in F-class gas turbines, the demand for H-class ones began to surface. In 2017, the Group witnessed its market share of 31% in the steam power industry and entered into contracts for the Chinese mainland's first H-class Junliangcheng (Tianjin) Project and first new-typed 9F-class Langfang Project.

International market: Affected by the continuous slowdown in global economic growth and the resultant decline in market demand, the initialled or awarded projects of the Group were not formally effected or implemented due to the project progress in 2017, which resulted in failure to factor into the duly signed contracts of power engineering business, yet providing project reserves for 2018 and beyond. Meanwhile, the Group signed contracts on international project operation, maintenance and renovation worth RMB1.27 billion, an increase of nearly four times over the same period last year.

Power station service industry: Despite promising prospect in the power station transformation service market, the competition is fierce. In 2017, the Group signed the first technical agreement on complete transformation of Baise Mining Group Yinhai Thermal Project and Datang Liaoyuan Flexibility Transformation Contract for the first time.

In addition, breakthroughs were also made in seawater desalination, waste incineration waste heat boilers, petrochemical equipment, solar photo-thermal utilization, small steam turbines and preheaters.

PRODUCTION & SERVICE

When it comes to the output of main products, affected by the national energy control policy in 2017, parts of domestic thermal power projects were suspended or dismantled, and at the same time, new domestic bidding projects were on the decline and export volume decreased compared with the same period last year. During the year, since it was made clear that some of the Group's thermal power projects on hand were suspended, and the production of thermal power products was decreased year on year. In order to minimize operational risks, the Group made its product scheduling plan in a scientific and reasonable manner by taking into full account internal and external situations, users' actual needs and project implementation risk and other factors. As a consequence, output of boiler products for power stations completed in 2017 was slightly higher than that of the same period last year, while that of steam turbine generators as well as steam turbines for power stations was reduced compared with that of the same period last year. In addition, because the projects completed in 2017 were mostly small-capacity units, hydro-generator output of the Group was reduced to some extent compared with the same period last year. In 2017, output of the Group's power generation equipment amounted to 14,170 MW, down by 40.6% over the same period last year, of which 1,900 MW were produced by water turbine generator units, down by 53.9% over the same period last year and 12,270 MW by steam turbine generators, down by 37.8% over the same period last year. Output of steam turbines for power stations was 9,830 MW, down by 36.6% over the same period last year and that of boilers for power stations was 17,090 MW, up by 0.8%.

In terms of international engineering projects, in 2017, the Group actively practiced the "Belt and Road" initiative, setting a 17-month record from commencement to ignition in the built Pakistan Bhikki 9H Class Gas Turbine Project and a 64-day world record from launch to ignition for Pakistan Best Drum (百路凱) Project; Indonesian Banten Project in which the Group served as general contractor and provided the main equipment, was put into commercial operation, Bangladesh Baku project was connected to the grid ahead of schedule, and Pakistan Sahiwal 660 MW Generator units was put into service smoothly. Harbin Electric International Company Limited (Harbin Electric International for short), a subsidiary of the Group, ranked 67 among the world's 250 largest international contractors, up by 21, and 13 among Chinese ones, up by 4.

Scientific research inputs and achievements

In 2017, the Group incurred a R&D expenditure of RMB1.38 billion to complete 257 R&D projects and 80 new products, receiving 27 awards for technology achievements, 16 of which were related to provincial and ministerial ones and above. Research and Engineering Demonstration on High-parameter Ultra-supercritical Two-stage Reheating Key Technologies and (Ultra) Ultra-supercritical Pulverized Coal Wall-type Tangential Horizontal Fuel Staged Combustion Technology, which were conducted by Harbin Boiler Company Limited ("Boiler Company"), a subsidiary of the Group, were honored with China Award for Electric Power Innovation and the First Prize for Technological Invention of Heilongjiang Province respectively.

In 2017, the Group gave full play to the supporting roles of science and technology and completed the phased work established by the Central Research Institute. The annual plan was accomplished for system integration, undergoing complete sets of transformation, multi-energy complementary technology improvement, industrial big data and other projects. A model for evaluating the comprehensive competitiveness of science, technology and quality was built. Jarud Unit 2, the world's first 300 megavar fully air-cooled phase modifier with fully independent intellectual property rights, was successfully connected to the grid at a time; coal-fired coupled garbage power generation technology was approved in the review organized by the National Energy Administration (NEA) of the PRC, becoming the first coal-fired coupled garbage power generation technology passing on the review of NEA. Development was accomplished on megawatt water-hydrogen cooled steam turbine generators with complete independent intellectual property rights. Large thermal power megawatt-class single-series high-speed heaters and steam coolers reached the international advanced level. Multi-stage small-enthalpy current drop, high pressure red sleeve inner cylinder, valve direct connection and other steam turbine technologies were verified in practice.

New products and new industries

In 2017, the Group thoroughly implemented the national structural reform on the supply side, actively and vigorously pushed forward the adjustment of industrial structure and the development of new industries such as wind power generation and photo-thermal power generation. Additionally, the Group channeled greater energy to expand the marine power field, and 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.

Management and innovation

Effective results were achieved in reforming the divisional organization system. Steam Power Division and Power Station Service Division were established, with the staffing basically in place, the marketing fully launched and the operation entering into a normal state; Steam Power Division achieved remarkable achievements in complete supply and Power Station Service Division developed a new way of project management and expanded the marketing channel by means of information technology. Gas Turbine Division intensified its marketing team building, divided the market according to the region, and formulated the implementation opinions on development of medium and small-sized gas turbines and distributed energy sources. Nuclear Power Division implemented one-to-one marketing and Top 10 management.

Innovative mode was created to operate power station service. "Internet+federal reserve+service" mode was launched to settle successfully in Guoneng e-shopping mall. Information service platform was on line from the Group side. Development was initiated across the board on the thermal power system for remote intelligent operation, maintenance and fault diagnosis.

Negotiations were concluded for the joint venture of heavy gas turbines. The Group signed with GE (China) Co., Ltd. the Contract for a Joint Venture Enterprise which agreed restablishing a joint venture company for R&D, manufacturing and service of heavy gas turbines, so as to lay the foundation for development of heavy gas turbines by the Group. (Such joint venture project should come into effect upon the approval of the board of directors of both parties)

The civil-military integration development is pushed forward with all efforts. The Ship Power Department is established to actively make strategic cooperation plans for civil-military integration.

Capital expenditure and significant investments held

In 2017, the Group injected a total of capital expenditures worth RMB881 million for major construction and technological transformation projects. The major projects include:

Technology upgrading project for building nuclear turbine core capacity of Harbin Steam Turbine Company Limited, manufacturing base improvement project for main nuclear pump motor units of Harbin Electric Power Equipment Company Limited (HEPE), manufacturing capacity enhancement project for key nuclear pump and key equipment for long-distance natural gas pipeline of HEPE and Hassyan Project in Dubai of Harbin Electric International Company Limited. The first two were technological transformation projects designed for nuclear power products, could satisfy the needs of the Group's nuclear power technology development, improve the core manufacturing capacity of nuclear power products and break through the bottleneck of manufacturing main equipment and key components of nuclear power conventional islands; at present, the civil engineering sections of the projects have been completed. The third one could meet the Group's independent production needs required by 1000-MW nuclear power main pumps as well as high-power synchronous motors for natural gas long-distance pipelines and boost the core manufacturing capacity of products; at present, equipment procurement, installation and debugging are underway for this project. The last one was specifically acquiring apartments in Dubai which would serve as a living camp for Chinese project managers and is now completed.

In 2018, the Group intends to commit an investment of RMB648 million in key construction and technological transformation projects, including its own funds of RMB411 million, RMB16 million in loans and RMB221 million in state funds. The fund is mainly used for the follow-up promotion of the projects above, that is, process development and product manufacturing project of high temperature gas cooled reactor steam generators, heat regenerators and testing main body and independent manufacturing improvement project of nuclear power and nuclear island main equipment of Harbin Electric Corporation (QHD) Heavy Equipment Company Limited. These projects will boost independent innovation ability and competitiveness of the company, promote development of advanced nuclear power with independent intellectual property rights and break through the bottleneck of product quality and mass sets manufacturing.

Major acquisitions and sales of subsidiaries, associates and joint ventures

In 2017, the company carried out no major acquisitions or sales of subsidiaries, associates and joint ventures.

MAJOR FINANCIAL INDEXES

In 2017, the Group expanded its sales while securing a steady sales scale. However, impacts of the macroeconomic environment both at home and abroad, industry development trends, falling prices of product orders, increased prices of raw materials, continual appreciation of RMB and extended period of the accounts receivable hindered a rise in profitability.

Profit

In 2017, net profit attributable to the owner of the parent company realized by the Group registered RMB194.23 million, representing a decrease of 53.00% over the same period last year; earnings per share were RMB0.14, down by RMB0.16 year on year. The decrease in the Group's profit was mainly attributable to: first, the extended period of the accounts receivable, an increase in suspended and deferred projects and in provisions; second, RMB appreciation and increased exchange losses; and third, a year-on-year increase in labor costs.

Operating income

In 2017, the Group recorded an operating income of RMB31,540.32 million, representing an increase of 1.98 % over the same period last year, of which operating income from the main thermal power equipment (including thermal power and steam power products) was RMB13,871.64 million (or 43.98% of the total operating income), representing a year-on-year increase of 13.99%. Operating income from main hydropower equipment was RMB1,146.21 million (or 3.63% of the total operating income), representing a year-on-year decrease of 53.86%. Operating income from engineering services for power stations was RMB10,704.84 million (or 33.94% of the total operating income), representing a year-on-year increase of 7.99%. Operating income from ancillary equipment and supplementary products for power stations was RMB1,339.08 million (or 4.25% of the total operating income), representing a year-on-year decrease of 6.86%. Operating income from AC/DC motors and other products and services was RMB2,445.98 million (or 7.76% of the total operating income), representing an year on-year decrease of 16.11%. Operating income from nuclear power products was RMB2,032.58 million (or 6.44% of the total operating income), representing a year-on-year increase of 1.14%. The overall sales scale of the Group remained stable, and the sales of steam power equipment as well as million class steam turbine products for power stations raised the revenue proportion of thermal power host equipment segment. However, with the gradual completion of the transformation of old units in China, the market scale of auxiliary equipment and unit transformation projects continued to decline, and the revenue proportion of corresponding segment decreased year by year.

In 2017, the Group recorded an income of export of RMB10,603.15 million (or 33.62% of the total operating income), increasing by RMB501.51 million over the previous year. The export was dominated by Asia and South America, in which export to Asia amounting to RMB8,740.92 million while export to South America amounting to RMB1,164.63 million.

Costs

In 2017, the group's operating cost was RMB27,267.95 million, representing an increase of 2.41 % over the same period last year, mainly due to the expansion in sales scale.

Gross profit and gross profit margin

In 2017, the Group realized a gross profit from operating business of RMB4,272.37 million, representing a year-on-year decrease of 0.70%. The gross profit margin was 13.55%, representing a year-on-year decrease of 0.36%. The gross profit from main thermal power equipment was RMB2,300.52 million, increasing by RMB17.09 million over the previous year. The corresponding gross profit margin was 16.58%, representing a year-on-year decrease of 2.18%. The gross profit from main hydropower equipment was RMB182.33 million, decreasing by RMB7.46 million over the previous year. The corresponding gross profit margin was 15.91%, representing a year-on-year increase of 8.27%. The gross profit from engineering services for power stations was RMB497.33 million, decreasing by RMB292.65 million over the previous year. The corresponding gross profit margin was 4.65%, representing a year-on-year decrease of 3.32%. The gross profit from ancillary equipment and supplementary products for power stations was RMB195.21 million, decreasing by RMB32.83 million over the previous year. The corresponding gross profit margin was 14.58%, representing a year-on-year decrease of 1.28%. The gross profit from the AC/DC motors and other products and services was RMB577.63 million, increasing by RMB58.14 million over the previous year. The corresponding gross profit margin was 23.62%, representing a year-on-year increase of 5.80%. The gross profit from the nuclear products was RMB519.36 million, increasing by RMB227.54 million over the previous year. The corresponding gross profit margin was 25.55%, representing a year-on-year increase of 11.03%. The Group's gross profit margin declined slightly. There're three reasons for this. First, thermal power capacity was excessive in China, the volume of products launched in the market decreased year by year, and the tender price of products continued to decline. Second, due to volatility in commodity price, steel price rose faster, by the end of the period, the steel price index increased 22.4% comparing with that at the beginning of the period, and material costs of products increased significantly. Finally, due to appreciation of the RMB, contract price converted of power station engineering service projects were decreased, which led to weakened comprehensive profitability of projects.

Expenses for the Period

In 2017, the Group's distribution expenses amounted to RMB639.38 million, representing an increase of RMB1.14 million or 0.18% over the corresponding period last year. Administrative expenses incurred amounted to RMB2,253.71 million, representing a year-on-year increase of RMB117.01 million or 5.48%, of which labor cost increased more significantly than that in the previous year. Finance costs incurred was RMB322.79 million, representing a year-on-year increase of RMB195.28 million or 153.16%; appreciation of the RMB contributed to an increase in exchange losses.

Funding source and borrowing status

The Group financed its operation and development with four major funding sources, namely shareholder's funds, trade receivables from customers, bank borrowings and corporate bonds. The Group arranges borrowings for each specific project. Except for some exceptions, loans are usually raised individually by the Group's subsidiaries, while prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 31 December 2017, the Group's total borrowings amounted to RMB3,283.57 million (31 December 2016: RMB2,089.34 million) all of which amounts were borrowed from various financial Institutions, such as commercial banks, at interest rates stipulated by the state. Among those borrowings, the amount repayable within one year was RMB3,083.57 million, representing an increase of RMB994.23 million as compared to the beginning of the year; and the amount repayable after one year was RMB200.00 million, representing an increase of RMB200.00 million as compared to the beginning of the year. As of 31 December 2017, the borrowings made by the Group 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. Relevant bank borrowings and details of other borrowings were set out in Note of this annual report.

Monetary capital and cash flows

As at 31 December 2017, the monetary capital of the Group was RMB16,165.24 million, representing a decrease of RMB1,924.67 million as compared to the beginning of the year. During the period, the net cash flow generated from operating activities of the Group was -RMB2,692.25 million, while investing activities generated negative net cash flow of -RMB1,509.12 million and financing activities generated negative net cash flow of RMB2,293.83 million. As the Group's major customers are in a tight financial condition paying with bills in large quantities instead of cash, cash flows from operating activities and monetary funds were on the decline.

Asset structure and movements

As at 31 December 2017, total assets of the Group amounted to RMB64,838.09 million, representing an decrease of RMB1,029.41 million (or 1.56%) as compared to the beginning of the year, of which current assets were RMB56,018.79 million, representing 86.40% of the total assets, while non-current assets were RMB8,819.30 million, representing 13.60% of the total assets.

Liabilities

As at 31 December 2017, total liabilities of the Group amounted to RMB48,695.94 million, representing a decrease of RMB2,529.15 million as compared to the beginning of the year, of which current liabilities were RMB47,075.55 million, representing 96.67% of the total liabilities, while non-current liabilities were RMB1,620.39 million, representing 3.33% of the total liabilities. As at 31 December 2017, the gearing ratio of the Group was 75.10%.

Owners' interests

As at 31 December 2017, the total equity attributable to the owners of the parent company amounted to RMB14,870.75 million, representing an increase of RMB1,437.66 million as compared to the beginning of the year; the net asset per share was RMB8.71, representing an decrease of RMB1.05 as compared to the beginning of the year. During the period, the return rate on net assets of the Group was 1.37%.

Gearing ratio

As at 31 December 2017, the gearing ratio of the Group (non-current liabilities to total shareholders' equity) was 0.11:1, compared with that of 0.33:1 at the beginning of the year. The Group's RMB3 billion corporate bonds will mature in March 2018 and on 31 December 2017 were reclassified to non-current liabilities due within one year, with a significant decrease in non-current liabilities.

Contingent liabilities and pledges

As at 31 December 2017, the Group pledged its assets of RMB121.76 million to secure loans for liquidity.

Exposure to fluctuations in exchange rate

Some of the deposits of the Group are denominated in foreign currencies. As at 31 December 2017, the amount of the Group's deposits in foreign currency was equivalent to RMB1,603.61 million. The export business and foreign currencies settled businesses expose the Group to exchange risk.

Use of fund-raising proceeds

The Group has fully utilized its proceeds from issuance of shares and bonds in previous years, and the fund of RMB1,270.00 million from fund-raising activities was not utilized yet for this year.

DIVIDEND

A final dividend of RMB0.015 per share (appropriate tax included) for 2017 was proposed by the Board.

Closure of Register for the Purpose of Dividend Payment

The final dividend for the year of 2017 of the Company will be distributed on 25 July 2018, and the register of members of the Company will be closed from 11 June 2018 to 15 June 2018 (both dates inclusive). Final dividends for the year of 2017 of the Company will be distributed to shareholders whose names appear in the register of members of the Company on 11 June 2018. In order to qualify for the final dividends for 2017, all completed transfer documents accompanied with the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, namely Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on 8 June 2018.

Dividend Tax

Pursuant to the relevant requirement of “PRC Individual Income Tax Law” (《中華人民共和國個人所得稅法》), “PRC Implementation Regulations of the Individual Income Tax Law” (《中華人民共和國個人所得稅法實施條例》) and “Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative)” (《國家稅務總局關於印發〈非居民享受稅收協議待遇管理辦法(試行)〉的通知》), the Company will withhold and pay the individual income tax in respect of the dividend (bonus) received by individual shareholders of H shares from the Company. Individual shareholders of H shares of the Company may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries in which the individual shareholders of H shares are domiciled and the tax arrangements between Mainland China and Hong Kong (Macau). The Company will determine the residence of the individual shareholders of H shares based on the registered address as recorded in the register of shareholders on the book closure date, i.e. 11 June 2018. The specific arrangement will be as follows:

For individual shareholders of H shares who are residents of Hong Kong or Macau and countries which entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on their behalf;

For individual shareholders of H shares who are residents of countries which entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will withhold and pay individual income tax at the rate of 10% on their behalf. Individual shareholders of H shares may apply for refund of excess amount of individual income tax withheld by providing relevant information for approval by taxation authority;

For individual shareholders of H shares who are residents of countries which entered into a tax treaty with the PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective rate stipulated by the relevant tax treaty on behalf of the relevant shareholders;

For individual shareholders of H shares who are residents of countries which entered into a tax treaty with the PRC stipulating a dividend tax rate of 20% or has not entered into any tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the relevant shareholders;

According to the “PRC Individual Income Tax Law” (《中華人民共和國個人所得稅法》), the Company will withhold and pay dividend income tax at the rate of 10% on behalf of the non-resident corporate shareholders.

According to the requirements of local tax authorities, the individual shareholders of H share of the Company who need personal income tax clearance certificates shall provide their passport information, therefore, for those individual shareholders of H share of the Company who need the personal income tax clearance certificates, please delivery the copy or scanning copy of their passports to the contact address of the Company before 30 days from the date of the dividend payment, and for those shareholders of H share who fail to provide their passport information, the Company will withhold and pay individual income tax collectively.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed to have received annual confirmation of independence from each independent non-executive directors 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 2017, 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) 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 2017, there is no service contract specified in Rule 14 of Appendix 16 of the Listing Rules between directors and supervisors of the Company and the Company.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

As of 31 December 2017, none of the Directors or Supervisors has any interest, whether directly or indirectly, in the contracts of significance entered into by the Group.

CONTRACTS OF SIGNIFICANCE WITH THE CONTROLLING SHAREHOLDERS OR THEIR SUBSIDIARIES

As of 31 December 2017, save as the connected and continuing connected transactions entered into the Group and HE as disclosed in the section headed “Report of the Directors” in the annual report, no contract of significance was entered into between the Group and the controlling shareholders or their subsidiaries.

REMUNERATION OF DIRECTORS AND SUPERVISORS

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

The remuneration of the directors and supervisors of the Company as of 31 December 2017 is as follows: (*Unit: RMB*)

		Wages and other benefits	Contribution to retirement benefits scheme	Total
	Fees			
Executive Directors				
Mr. Si Ze-fu	0	0	0	0
Mr. Wu Wei-zhang	0	482,500	76,572	559,072
Mr. Zhang Ying-jian	0	458,600	74,047	532,647
Mr. Song Shi-qi	0	448,700	76,572	525,272
	<u>0</u>	<u>1,389,800</u>	<u>227,191</u>	<u>1,616,991</u>
Independent Non-Executive Directors				
Mr. Zhu Hong-jie (appointed on 20 March 2017)	0	50,000	0	50,000
Mr. Hu Jian-min (appointed on 20 March 2017)	0	50,000	0	50,000
Mr. Yu Wenxing	0	60,000	0	60,000
Mr. Yu Bo (resigned on 20 March 2017)	0	0	0	0
Mr. Liu Deng-qing (resigned on 29 December 2017)	0	100,000	0	100,000
	<u>0</u>	<u>260,000</u>	<u>0</u>	<u>260,000</u>
Supervisors				
Mr. Feng Yong-qiang	0	448,700	76,572	525,272
Mr. Chen Guang	0	372,480	75,435	447,915
Mr. Zhang Jun-quan	0	290,808	53,417	344,225
Mr. Zhang Wen-ming	0	274,339	31,068	305,407
Mr. Zhu Peng-tao (appointed on 26 May 2017)	0	142,260	19,026	161,286
Mr. Xu Er-ming (resigned on 26 May 2017)	0	40,000	0	40,000
	<u>0</u>	<u>1,568,587</u>	<u>255,518</u>	<u>1,824,105</u>

FIVE HIGHEST PAID PERSONNEL

As of 31 December 2017, the five highest paid personnel in the Company are senior management of the Company and its subsidiaries. Remuneration of four of them was HK\$1 million but below HK\$1.5 million, one of them received remuneration over HK\$1.5 million but below HK\$2 million.

	Fees	Wages and other benefits	Contribution to retirement benefits scheme	Total
Total remuneration of the five highest paid personnel	HK\$0	HK\$5.8885 million	HK\$1.0679 million	HK\$6.9564 million

CONTINGENT LIABILITIES – GUARANTEES

As of 31 December 2017, total internal guarantees in favour of the Group made by the Company and its subsidiaries amounted RMB1,419.10 million. No external guarantee was provided.

PERMITTED INDEMNITY PROVISION

As provided by applicable laws, each directors of the Company is entitled to be indemnified by respective companies for all costs, charges, losses, fees and liabilities which arise in or are connected to the execution or performance of their duties according to the Articles of Association of the Company. The provision becomes effective in the financial year ended 31 December 2017 and is 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

As of 31 December 2017, the Company has no significant investment in securities.

STAFF REMUNERATION, RETIREMENT AND BENEFITS SCHEME

In 2017, the Group continued to deepen its remuneration reform, and further increased the salary distribution to its production core staffs, key positions with significant contribution and backbone persons, so as to make a better flexibility for the income distribution of our staff and promote their enthusiasm, initiative and creativity and also to realize that the income distribution will be matched with economic benefit growth and improvement of labor efficiency, with a view to establishing a harmonious income distribution relationship.

In 2017, the total salaries of the Group amounted to RMB1,744.74 million. Currently, the Group has no long-term award scheme.

PROFITS AVAILABLE FOR DISTRIBUTION

As of 31 December 2017, the Company's undistributed profits available for distribution are RMB991.04 million. Movements in the undistributed profits of the Company during the year are set out in the statement of changes in equity to the financial statements.

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

As of 31 December 2017, 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 Law, which would require the Company to offer issuance of new shares to existing shareholders according to their respective proportions of shareholding.

STATUS OF SHARE ISSUANCE

On 4 September 2017, the Company entered into a Domestic Shares Subscription Agreement with Harbin Electric Corporation Co., Ltd ("**HE**"), pursuant to which, the Company has agreed to issue and HE has agreed to subscribe in cash for Domestic Shares at a total subscription price of approximately RMB1.27 billion ("**The Issuance**"). On 1 December 2017, The subscription of New Domestic Shares of the Company by HE at a total subscription price of approximately RMB1.27 billion was approved at the extraordinary general meeting and general meeting for holders of H Shares of the Company. According to the subscription agreement, the Company shall issue 329,717,000 Domestic Shares to HE at a price of HK\$4.56 per share, and will complete the registration of Domestic Shares at 18 January 2018. Set out below are the details of the issue:

1. Reasons for issue

In order to promote the overall business development, the Company plans to further enhance its production and manufacturing capacity in nuclear and gas turbine industries. The funds raised from the issue of Domestic Shares to HE can be used as financial support for the reform, transformation and sustainable development of the Company, and improve its capital debt structure, allowing the Company to create greater value for shareholders.

2. Type of issue

The issuance has adopted private placement and the issued shares are Domestic Shares.

3. Numbers and total nominal value

The Company issued a total of 329,717,000 Domestic Shares with a total nominal value of RMB329,717,000 at par value of RMB1 each.

4. Issue price

The price of this issue is HK\$4.56 (equivalent to approximately RMB3.85 per share), representing 10 per cent premium over the average stock price during 20 trading days preceding the date of the Board meeting.

5. The net price of each share certificate

The net price of each share certificate from the issuance is RMB3.84 after deduction of the cost of this issue.

6. Description of subscriber

The Subscriber is the controlling shareholder of the Company, and is the pioneer in establishing the largest research and manufacturing base for power-generating equipment, marine engines, power-driven equipment and export base for complete set of equipment in the PRC.

7. Market price of the securities on the date of issue

On the date of the completion of issue, the closing price of H shares of the Company is HK\$3.36 per share.

8. Use of proceeds

The net proceeds from the issue of Domestic Shares will be applied for the following purpose:

- (1) to invest in a joint venture project on gas turbine and a nuclear power technology upgrading project; and
- (2) for general working capital of the Company.

MODEL CODE

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

CORPORATE GOVERNANCE CODE

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

In 2017, the Company has complied with the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange. Details of which are set out in the section headed "Corporate Governance Report" in the annual report.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements, continuing connected transactions, internal control and risk management of the Group for the year ended 31 December 2017, and discussed with the Board the financial reporting procedures as well as the internal control system of the Group.

AUDITORS

According to the requirement of the financial auditing engagement period stipulated by the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China, in December 2015, the Company appointed BDO China Shu Lun Pan Certified Public Accountants LLP to replace the original PRC auditors, Ruihua Certified Public Accountants, and the Hong Kong auditors, Crowe Horwath (HK) CPA Limited.

The financial statement of the Company for the year ended 31 December 2017 has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP, which was appointed at the 2016 annual general meeting of the Company. Its annual remuneration for the year was RMB2.50 million. The auditor is eligible and willing to offer itself for re-appointment. The resolution to re-appoint the auditor and to authorise the Board to determine its remuneration will be proposed at the 2017 annual general meeting of the Company.

PROSPECTS

Base on comprehensive analysis on the situation both at home and abroad, China faces both opportunities and challenges. The recovery of the world economy is expected to continue, but there are many uncertainties and instability at play: policy adjustments of major economies and their spillover effects generate variables; protectionism becomes serious, and geopolitical risks are rising. China's economy is in a critical period of transforming the mode of development, improving the economic structure and shifting the growth driver, we need to address predictable and unpredictable risks and challenges.

In light of the market situation of the power generation equipment manufacturing industry, the thermal power market will continue a downward trend, with demand for large-scale units decreasing sharply and a certain demand for small and medium-sized generator units. The hydropower market ushers in the peak of pumped storage development. The steam power market maintained an upward momentum. There is a growing call for a restart in the nuclear power market. In the power station service market, there leaves larger potential for energy saving and emission reduction and a certain space for carrying out heating and power generation simultaneously. The new energy market is developing rapidly. Therefore, the power generation equipment manufacturing industry is confronted with both challenges and opportunities; we must draw on reform and innovation to speed up fostering new momentum of development.

The Group will commit itself to the following efforts by taking as a guideline the 13th Five-Year Plan and being centered around high-quality development: continuing its efforts in improving the competitiveness of the thermal power market, optimizing the performance of generator units and accelerating the transition to clean and efficient thermal power; speeding up the process of independent design and manufacturing of pumped storage units; actively participating in the implementation of major national special projects and enhancing the level of domestic manufacturing; further improving capacity building of the nuclear power industry and shoring up capacity in weak spots; building the whole industry chain service mode to move towards the transformation to manufacturing-service-driven development; accelerating technology introduction and boosting rapid development of wind power, photothermal and other industries; and making breakthroughs in the field of new energy industry. We will give high priorities to innovation, operation, transformation, reform and improvement in weak areas to survive the furious winter with more vigor and vitality, towards the path of rejuvenation.

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

Harbin, PRC, 23 March 2018

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