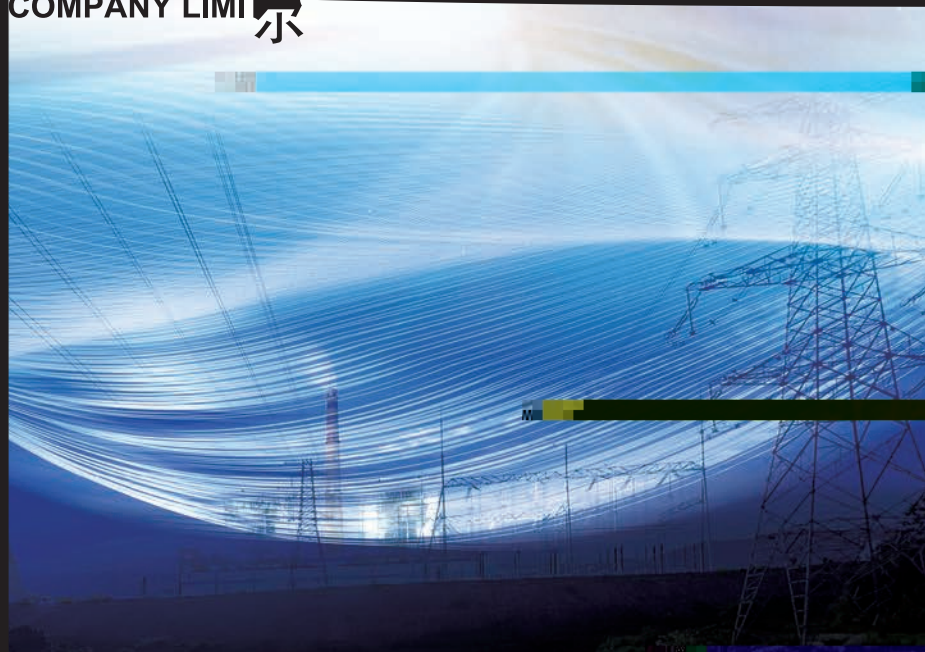


ANNUAL REPORT 2018

COMPANY LIMITED 小

Stock Code: 1133



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OVERVIEW OF THE COMPANY

Harbin Electric Company Limited (the “Company”) was formed through the restructuring of relevant entities including former Harbin Electrical Machinery Works, Harbin Boiler Works and Harbin Turbine Works (the “three major power factories”).

Located in Harbin City, China, the Company was incorporated on 6 October 1994 and listed on The Stock Exchange of Hong Kong Limited on 16 December 1994 with its stock code of “01133”.

As at 31 December 2018, the total share capital of the Company comprised of 1,706,523,000 shares, of which 675,571,000 were H shares traded on the HKSE.

The Company and its subsidiaries (the “Group”) are one of the largest manufacturers of power plant equipment in China, with a workforce of around 20,000 current employees and power plant equipment of a production capacity of 30,000 MW per annum. The Group’s principal activities and products include:

- Thermal power main equipments: boilers, steam turbines and steam turbine generators with single unit capacity up to 1,000 MW class, accounting for over 30% of the installed capacity of thermal power in China;
- Hydro power main equipments: hydro power generators units with single unit capacity up to 1,000 MW class, accounting for 50% of the installed capacity of large-scale hydro power in China;
- Nuclear power main equipments: nuclear island and conventional island equipments for nuclear power plants with single unit capacity up to 1,400 MW class;
- Complete set of steam power equipment: 9F/9H class gas turbine and combined gas and steam cycle set;
- Clean energy: R&D and production of products such as solar energy, tidal power and desalination;
- Other products: ancillary equipment for power stations, industrial boilers, industrial steam turbines, control devices, AC/DC motors, valves for power stations, pressure vessels and axial compressor, etc.;

OVERVIEW OF THE COMPANY (CONTINUED)

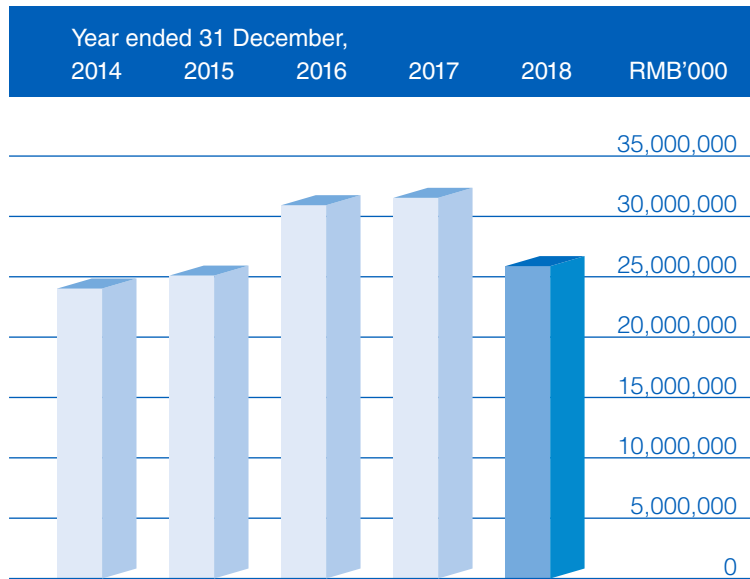
- Turnkey construction of power station projects;
- Contract supply of complete sets of thermal and hydro power equipment;
- Import and export of equipment for power stations;
- After-sales service for power station equipment products;
- R&D of engineering technology for turnkey power equipment;
- R&D of power equipment and its ancillary products;
- Environmental protection engineering services, such as desulfurization, denitrification and dust removal.

Positioning itself in the domestic market, the Group actively adopts an “outbound” strategy, exporting its main equipment and ancillary equipment products for thermal power, hydro power and nuclear power etc. to more than 40 countries and regions such as India, Russia and Brazil. At the same time, it is engaged in the turnkey construction of thermal power stations, wind farms, hydro power station equipment and power transportation and transformation projects both in China and overseas, as well as BOT and BOO businesses.

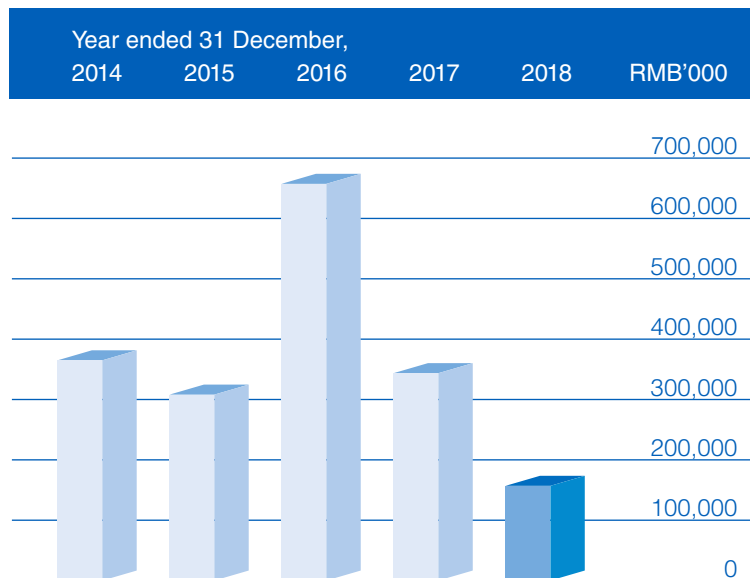
The Group brings together a pool of top talents in scientific research, technology and management, as well as a comprehensive system for quality assurance and quality control with a range of advanced production and research facilities. Its capabilities in research and development, production and manufacturing and power station construction rank the top in the power plant equipment manufacturing industry in China.

FINANCIAL HIGHLIGHTS

OPERATING INCOME



TOTAL PROFITS



FINANCIAL HIGHLIGHTS (CONTINUED)

SUMMARY OF RESULTS, ASSETS AND LIABILITIES OF THE PAST FIVE YEARS

| | Unit | Year ended 31 December | | | | |
|--|----------------|------------------------|------------|------------|------------|------------|
| | | 2018 | 2017 | 2016 | 2015 | 2014 |
| Operating Income | <i>RMB'000</i> | 25,879,461 | 31,540,324 | 30,929,421 | 25,097,225 | 24,026,534 |
| Total Profits | <i>RMB'000</i> | 156,854 | 343,366 | 657,169 | 307,860 | 364,910 |
| Net profits attributable to owners of parent company | <i>RMB'000</i> | 71,317 | 194,227 | 413,283 | 196,212 | 566,409 |
| Total assets | <i>RMB'000</i> | 56,541,983 | 64,838,093 | 65,867,508 | 64,163,245 | 62,161,482 |
| Total Liabilities | <i>RMB'000</i> | 40,232,952 | 48,695,941 | 51,225,093 | 50,246,364 | 48,156,430 |
| Interests of minority shareholders | <i>RMB'000</i> | 1,282,749 | 1,271,401 | 1,209,321 | 1,209,491 | 1,329,180 |
| Interests attributable to owners of parent company | <i>RMB'000</i> | 15,026,282 | 14,870,751 | 13,433,093 | 12,707,391 | 12,675,872 |
| Net assets per share | <i>RMB</i> | 8.805 | 8.714 | 9.757 | 9.230 | 9.207 |
| Earnings per share | <i>RMB</i> | 0.042 | 0.141 | 0.300 | 0.143 | 0.411 |

FINANCIAL HIGHLIGHTS (CONTINUED)

| | Year ended 31 December 2018 | | Year ended 31 December 2017 | |
|--|-----------------------------|---|-----------------------------|---|
| | Income <i>RMB'000</i> | Contribution to operating income <i>RMB'000</i> | Income <i>RMB'000</i> | Contribution to operating income <i>RMB'000</i> |
| Main thermal power equipment | 11,877,253 | 1,670,214 | 13,871,644 | 2,300,519 |
| Main hydro power equipment | 1,704,635 | 151,307 | 1,146,213 | 182,329 |
| Nuclear power | 1,338,543 | 279,758 | 2,032,576 | 519,357 |
| Engineering services for power stations | 7,411,068 | 253,427 | 10,704,840 | 497,330 |
| Ancillary equipment and supplementary products for power stations | 899,959 | 90,245 | 1,339,076 | 195,206 |
| AC/DC motors and other products and services | 2,648,002 | 746,979 | 2,445,975 | 577,629 |
| Total | 25,879,461 | 3,191,930 | 31,540,324 | 4,272,370 |
| Expenses not allocated to major products | | -3,035,076 | | -3,929,004 |
| Total Profits | | 156,854 | | 343,366 |

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board, I hereby present the 2018 annual report of Harbin Electric Company Limited and its subsidiaries.

In 2018, the Company made great endeavors to advance transformation and upgrading, and promote high quality development; in this year, the Company also strived to make overall arrangement and insisted on reform and innovation. During the year, the Company actively responded to the grave internal and external situations with an aim to build a world-class equipment manufacturer with global competitiveness. Through focusing on high quality development, the Company spared no effort to push forward all key tasks and made solid progress in business development in all segments, achieving a relatively stable operation throughout the year.

Affected by the national policy of de-capacity and energy structure adjustment, the Company's production and operation scale has declined. Turnover for the year was RMB25.879 billion, representing a decrease of 17.95% over the corresponding period last year; total profit was RMB157 million, representing a decrease of 54.32% over the corresponding period last year.

During the reporting period, the Company continued to remain committed to working hard on production and management, carrying out transformation and upgrading, deepening reform and innovation, strengthening points of weakness. We made great efforts to speed up market development, devoted greater energy to product delivery and constantly improved product quality; we continued our efforts in cutting costs and improving efficiency, vigorously reduced "Two Funds" pressures, and worked to put to good use stock assets; we clarified the direction of "7+1" sector development transformation, accelerated the transition to manufacturing service industry, and vigorously expanded emerging industries; we did well in the reform of the top-level design, adapted to the need for reform and development, carried out the three systems reform and accelerated the mixed-ownership reform; we improved scientific research system construction, accelerated pattern innovation, strengthened the connection between technology and market and made good use of technical support; we sped up the construction of the informatization system and intensified top-level design of the system; we strengthened the operation of the capital market, achieved breakthroughs in investment business, promoted the development of the talent pool, and polished the Harbin Electric brand.

In 2019, the world economy is expected to witness continued recovery; China's economy is in an important period of strategic opportunities; there will be no change in the "stable" pattern, and the "increase" trend is continued to develop, bringing a new situation to the power generation equipment industry. In light of energy condition, the world's energy structure is undergoing profound changes, and clean energy has become the dominant force in global energy consumption growth. In light of market condition of power generation equipment industry, the thermal power product market will further decline; the hydropower product market will maintain moderate growth; distributed energy will develop rapidly; and the clean energy market will continue to maintain rapid development. The Company will size up the situation, grasp new opportunities, accelerate transformation and achieve new leap forward, thereby giving back to the shareholders.

CHAIRMAN'S STATEMENT (CONTINUED)

2019 represents a crucial period of deepening reform, transformation and upgrading for the Company and is of vital significance to realize high quality development. Taking the strategic planning as a guideline, the Company will be committed to build a world-class equipment manufacturer with global competitiveness. Through taking reform and innovation as the driving force, and "fighting against severe winter" as the theme, the Company will focus on its development strategy while vigorously fighting for survival, reform and breakthrough and conducting reform in tough areas, in a bid to push forward high quality development so as to achieve better result and create fruitful returns for our shareholders.

I would like to express my gratitude to our shareholders for their trust and support, to my colleagues on the Board of Directors and Board of Supervisors for their assistance and contribution, and to all of our staff members for their efforts and dedication.

Si Ze-fu

Chairman

Harbin, the PRC, 7 March 2019



MANAGEMENT DISCUSSION AND ANALYSIS

Please read this section in conjunction with financial statements and notes set out in other sections in this annual report.

Unless otherwise stated, all amounts are denominated in Renminbi.

MACRO-ECONOMY AND INDUSTRY DEVELOPMENT

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

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

PRODUCTION AND OPERATION

Overview

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

New contracts

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

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

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

Production & service

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Scientific research inputs and achievements

In 2018, the Company incurred a R&D expenditure of RMB1.08 billion, completed 282 R&D projects and 75 new products, receiving 23 awards for technology achievements, 17 of which were related to provincial and ministerial ones. The Localized

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In 2019, the Group intends to commit an investment of RMB506 million in key construction and technological transformation projects, including its own funds of RMB317 million, RMB182 million in loans and RMB7 million in state funds. The fund will be mainly used for the technical improvement projects of the enterprises under the Group.

Major acquisitions and sales of subsidiaries, associates and joint ventures

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

MAJOR FINANCIAL INDEXES

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

The Group's analysis on revenue and performance for 2018 according to business is set out in Note VI(42) to the financial statements of this annual report.

Profit

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

Operating income

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Cost

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

Gross profit and gross profit margin

In 2018, the Group realized a gross profit from operating business of RMB3,191.93 million, representing a year-on-year decrease of 25.29%, and a gross profit margin was 12.33%, representing a year-on-year decrease of 1.21%. Out of the gross profit, RMB1,670.21 million was attributable to the gross profit from main thermal power equipments, decreasing by RMB630.31 million over the previous year, while the corresponding gross profit margin was 14.06%, representing a year-on-year decrease of 2.52%; RMB151.31 million was attributable to the gross profit from main hydropower equipment, decreasing by RMB31.02 million over the previous year, while the corresponding gross profit margin was 8.88%, representing a year-on-year decrease of 7.03%; RMB253.43 million was attributable to the gross profit from engineering services for power stations, decreasing by RMB243.90 million over the previous year, while the corresponding gross profit margin was 3.42%, representing a year-on-year decrease of 1.23%; RMB90.24 million was attributable to the gross profit from ancillary equipment and supplementary products for power stations, decreasing by RMB104.96 million over the previous year, while the corresponding gross profit margin was 10.03%, representing a year-on-year decrease of 4.55%; RMB746.98 million was attributable to the gross profit from AC/DC motors and other products and services, increasing by RMB169.35 million over the previous year, while the corresponding gross profit margin was 28.21%, representing a year-on-year increase of 4.59%; RMB279.76 million was attributable to the gross profit from nuclear products, decreasing by RMB239.60 million over the previous year, while the corresponding gross profit margin was 20.90%, representing a year-on-year decrease of 4.65%. The decrease in our Group's gross profit margin was firstly due to the volume of products launched in the market decreased year by year as a result of the overcapacity of domestic coal power capacity, and the tender price of products continued to decline; secondly, was due to the commodity price fluctuated, and steel price rose faster in line with the increase in material cost of products.

Expenses for the Period

In 2018, the Group's selling expenses incurred amounted to RMB731.24 million, representing an increase of RMB91.86 million or 14.37% as compared to the corresponding period of last year, primarily due to we stepped up efforts to collect trade receivables during the year, which resulted in a year-on-year increase of defect elimination cost; the administrative expenses incurred amounted to RMB1,465.16 million, representing a year-on-year decrease of RMB229.86 million or 13.56%, which mainly due to a year-on-year decrease in labor costs; the research and development expenses incurred amounted to RMB591.93 million, representing a year-on-year increase of RMB33.25 million or 5.95%; the finance expenses incurred amounted to RMB36.10 million, representing a year-on-year decrease of RMB286.69 million or 88.82%, mainly due to the decrease in interest expense as a result of the reduction of interest-bearing debts, and the increase in net exchange gain resulted from the changes in exchange rate.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Funding source and borrowing status

The Group financed its operation and development with three major funding sources, namely shareholder's funds, trade receivables from customers and bank borrowings. The Group arranges borrowings based on each specific project. Except for some exceptions, loans are usually raised by each of the Group's subsidiaries respectively, while prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 31 December 2018, the Group's total borrowings amounted to RMB2,072.91 million (31 December 2017: RMB3,283.57 million), all of which amounts were borrowed from various financial institutions, such as commercial banks, at interest rates stipulated by the state. Among those borrowings, the amount repayable within one year amounted to RMB1,772.91 million, representing a decrease of RMB1,310.66 million as compared with the beginning of the year; the borrowings repayable after one year amounted to RMB300.00 million, representing an increase of RMB100.00 million as compared to the beginning of the year. As at 31 December 2018, the Group's borrowings were all in RMB and there was no amount due. The repayment plan has been made for the borrowings that were not due, with no risk of default. Relevant bank borrowings and details of other borrowings were set out in Note VI (22), Note VI(29) and VI(31) to the financial statements of this annual report.

Monetary capital and cash flows

As at 31 December 2018, the monetary capital of the Group was RMB12,543.25 million, representing a decrease of RMB3,621.99 million as compared with the beginning of the year. During the period, the net cash flow generated from operating activities of the Group was RMB-676.00 million; the net cash flow from investing activities was RMB1,681.66 million; net cash flow from financing activities was RMB -4,537.01 million. The Group was exposed to the decrease in monetary capital due to the repayment of RMB3.00 billion corporate bonds and the decrease of contract liabilities.

Asset structure and movements

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

Liabilities

As at 31 December 2018, total liabilities of the Group amounted to RMB40,232.95 million, representing a decrease of RMB8,462.99 million as compared to the beginning of the year, mainly due to the repayment of RMB3.00 billion corporate bonds and the decrease of contract liabilities, out of which RMB38,375.69 million was current liabilities, representing 95.38% of total liabilities; and RMB1,857.26 million was non-current liabilities, representing 4.62% of our total liabilities. As at 31 December 2018, the gearing ratio of the Group was 71.16%.

Owners' interests

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gearing ratio

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

Contingent liabilities and pledges

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

Exposure to fluctuations in exchange rate

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

Use of fund-raising proceeds

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

Dividend

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

OUTLOOK

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

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

Harbin, the PRC
7 March 2019

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Si Ze-fu, born in 1958, holds an MBA degree and the title of senior engineer. He now serves as executive director, chairman and party secretary of the Company, and the chairman and party secretary of HE. Mr. Si graduated from Tsinghua University School of Economics and Management, majoring in management science and engineering studies. He was the deputy factory manager, factory manager and party committee secretary of Dongfang Electrical Works, the deputy mayor of Deyang city, Sichuan province and deputy general manager, general manager, director, vice chairman and chairman of Dongfang Electrical Machinery Company Limited. He had served as vice chairman, general manager and deputy party group secretary of China Dongfang Electric Corporation since 2003, the chairman of Dongfang Electrical Machinery Company Limited from December 2006 to January 2008, the director, general manager and deputy party group secretary of China Dongfang Electric Corporation since 2008, the chairman of Dongfang Electric Corporation Limited since October 2007, the legal representative of China Dongfang Electric Corporation since April 2009. Mr. Si Ze-fu has been the chairman and party committee secretary of HE since May 2016 as well as the chairman and party committee secretary of the Company since July 2016.

Mr. Wu Wei-zhang, born in July 1962, is a senior engineer at researcher level with a doctor's degree. He now serves as executive director, President and standing committee member of the Party Committee of the Company and the director, general manager, deputy party secretary of HE. Majoring in Hydraulics and River Dynamics, Mr. Wu graduated from Tsinghua University with a master's degree in 1988 and subsequently obtained a doctorate degree at Tsinghua University in 2002. Mr. Wu joined HE in 1988. Mr. Wu has been a deputy director and deputy head of the turbine department of Electrical Machinery Institute, a deputy manager of hydropower workshop, a deputy chief engineer and a deputy manager of the product design department of the Electrical Machinery Company of the Group. Mr. Wu was appointed as the deputy general manager of the Electrical Machinery Company since 1999 and then the chairman and general manager since October 2000 respectively. He also holds various social posts, including a member of the first session of academic committee of National Key Laboratory of Hydroelectric Power Generating Equipment (水力發電設備國家重點實驗室) and the vice chairman of the seventh session of council of China Energy Research Society (中國能源研究會). He was appointed as an executive director of the Company since September 2000 and has been serving as the general manager of the Company since February 2010. He has been the President of the Company since March 2013.

Mr. Zhang Ying-jian, born in November 1964, a master's degree holder and senior engineer, is currently an executive director and a senior vice-president and the standing member of the Party Committee of the Company and the standing member of the Party Committee and deputy general manager of HE. Mr. Zhang graduated from the Department of Thermal Engineering at Tsinghua University with a bachelor's degree in gas turbines in July 1988 and subsequently obtained a master's degree from Harbin Institute of Technology. Mr. Zhang joined HE in 1991. He was formerly a project engineer, project manager, business representative, deputy controller of Harbin Power Station Equipment Import and Export Company, deputy chief engineer, deputy manager of financial planning division and deputy general manager of Harbin Power Engineering Company Limited. He became the deputy general manager of HE since September 2007, a non-executive director of the Company since January 2013, and an executive director and the senior Vice-president of the Company since March 2013.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Song Shi-qi, born in December 1958, a senior political engineer, is currently an executive director of the Company. Mr. Song graduated from Harbin Electrical Machinery Plant Technical School in 1980 and subsequently attained post-graduate qualification in economic management from Heilongjiang Provincial Committee Party School. Mr. Song joined HE in 1980. He was formerly a youth league committee member, deputy secretary, secretary of Harbin Electrical Machinery Works and a secretary of the party sub-division at the specialized equipment factory, a party standing committee member of both Harbin Power Plant Equipment Group Corporation and the Company, the head of the Company's Organization Department, as well as an assistant to the general manager of the Company. He has been the deputy party secretary and a secretary of the disciplinary committee, director, deputy managing director, party secretary and deputy chairman of the machinery division of the Group since 1998. He became the deputy general manager of HE since August 2009 and has been a non-executive director of the Company since January 2013, and an executive director and the senior Vice-president of the Company since March 2013. He resigned as a senior Vice-president of the Company in March 2019.

Independent non-executive directors

Mr. Zhu Hong-jie, born in July 1954, holds a bachelor degree and the title of senior economist, and is now retired and serves as independent non-executive director of the Company. Mr. Zhu was graduated from the Department of Planning and Statistics, Xiamen University. Mr. Zhu started his career in 1978. He has been the General Planning Division Statistics Officer, Deputy Director, Director, Director of Planning and Finance Division (Deputy Secretary) of the Ministry of Foreign Trade and Economic Co-operation, responsible for the establishment of The Export-Import Bank of China. He held various positions at The Export Import Bank of China, such as head of the Preparatory and Business Team, general manager of the Project Fund Department and chief representative of Shanghai office, general manager of the External Concessional Loan and chief representative of Shanghai office, general manager of the Vendor Credit Department (Division I), assistant to the Governor of The Export-Import Bank of China. He has been the Vice Governor, party committee member, deputy secretary of the party committee, secretary of the party committee and principal of party school of The Export-Import Bank of China since 2001, and retired in September 2014. He has been an external director of State Power Investment Corporation since January 2016. He has been appointed as independent non-executive director of the Company since March 2017.

Mr. Yu Wen-xing, born in October 1953, is a retired senior engineer at professor level with a university degree and now serves as an independent non-executive director of the Company. Mr. Yu served as a deputy director of Beijing representative office, head of international cooperation department and office head of China Three Gorges Corporation, deputy director of the preparation office of Jinshajiang Development Co., Ltd. (金沙江開發有限責任公司) of China Three Gorges Corporation, head of construction department at Xiangjiaba Dam, assistant to the general manager of China Three Gorges Corporation and director, party committee member and head of discipline department of China Three Gorges Corporation, and retired in June 2014. He has been an independent director of China XD Electric Co., Ltd. since December 2014. He has been appointed as independent non-executive director of the Company since March 2015.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Hu Jian-min, born in July 1954, holds a bachelor degree and the title of senior engineer, is now retired and serves as independent non-executive director of the Company. Mr. Hu was graduated from Shandong Institute of Technology, majoring in power system relay protection and automation. Mr. Hu started his career in 1974. He has been deputy division leader, deputy director and director of Shandong Jining Power Plant (山東濟寧發電廠), deputy head, chief engineer, party committee member and head of Shandong Liaocheng Power Plant (山東聊城發電廠), general manager of Shandong Liaocheng Thermal Power Company Limited (山東聊城熱電有限責任公司), head and secretary of the party committee of Shandong Shiheng Power Plant (山東石橫發電廠), head and secretary of the party committee of Shandong Zouxian Power Plant (山東鄒縣發電廠), chief engineer of Shandong Electric Power Industry Bureau (Shandong Electric Power Group Corporation), deputy general manager and party leadership group member of Huaneng Power International, Inc., deputy chief engineer and program development manager, assistant to general manager and planning development director of China Huaneng Group, executive director and general manager of Huaneng Hulunbuir Energy Development Co., Ltd. He has been the chief engineer, deputy general manager, party leadership group member of China Huaneng Group since 2009, and retired in September 2014. He has been an independent director of China First Heavy Industries since May 2015. He has been appointed as independent non-executive director of the Company since March 2017.

Mr. Tian Min, born in November 1956, is a retired senior accountant at researcher level with a college degree, enjoys the special allowance from the State Council and now serves as an independent non-executive director of the Company. Mr. Tian started his career in 1974. He was a head, deputy chief accountant, deputy general manager and chief account of accounting division of Nanchang Aircraft Manufacturing Corporation (南昌飛機製造公司), general manager of Hongdu Aircraft Industry Co., Ltd. (洪都飛機工業有限公司), chief account, deputy party committee secretary, director, party committee secretary and chairman of Jiangxi Hongdu Aviation Industry Group Co., Ltd. (江西洪都航空工業集團有限責任公司), chief accountant and member of party group of China Aviation Industry Corporation II (中國航空工業第二集團公司), and chief accountant and member of party committee of Commercial Aircraft Corporation of China, Limited and retired in May 2017. He has been appointed as independent non-executive director of the Company since March 2018.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Chen Guang, born in August 1964, a senior economist with a postgraduate degree, is a supervisor representing shareholders of the Company and head of the organization department under the Party Committee and head of the United Work Front Department of the Boiler Company of the Group. Mr. Chen graduated from Xi'an Jiaotong University in 1987 and joined HE in the same year. He was appointed as a designer of the Design Department of the Boiler Company of the Group, secretary of factory office, deputy manager of the spare parts company, deputy secretary and chairman of Labor Union of No. 2 Pipe Workshop, secretary and head of Drum Workshop, head, director of Security Department and secretary of No.1 Pipe Workshop. He has been the head and secretary of Safe Technology and Environmental Protection Office, and the director and secretary of Corporate Management and Development Department. He has been appointed as the head of the organization department under the Party Committee and head of the United Work Front Department of the Boiler Company since June 2016. He has been a supervisor representing shareholders of the Company since December 2009.

Mr. Zhu Peng-tao, born in April 1973, aged 44, is a senior auditor with a master degree. He is currently a supervisor representing shareholders and the deputy director of No. 1 Auditing Division under the Audit Department of the Company and the supervisor of 哈爾濱哈電醫院管理有限公司. Mr. Zhu graduated from Harbin University of Science and Technology, majoring in auditing, and then further obtained a master degree in Engineering from the same university. Mr. Zhu started his career in July 1998. He has been a staff member and the chief of the Planning Division of 哈電集團哈汽實業公司 and the auditing business director of the Audit Department of HE and the Company. He has served as the deputy director of No. 1 Auditing Division under the Audit Department of the Company since August 2016. He has been as a supervisor representing shareholders of the Company since May 2017.

Supervisors representing employees

Mr. Zhang Wen-ming, born in September 1974, a senior engineer with a master degree, now a supervisor representing employees of the Company and the head of Organization Department of the Party Committee of the Turbine Company of the Group. Mr. Zhang graduated from Anshan Institute of Iron and Steel Technology, majoring in metal press processing. Then he obtained a master degree in engineering from Harbin Institute of Technology. Mr. Zhang started his career in July 2000. He was the engineer of the material research center, secretary to the general manager, deputy director of the technology and management division and deputy director and director of the corporate development center of the Turbine Company of the Group. He has been the head of Organization Department of the Party Committee of the Turbine Company of the Group since January 2013 and has been a supervisor representing employees of the Company since January 2013.

Mr. Zhang Jun-quan, born in February 1964, is a senior engineer with a bachelor degree. He is currently a supervisor representing employees of the Company and the head of the Party Committee of the Organization Department of Electric Machinery Company of the Group. Mr. Zhang graduated from Shenyang Architectural and Civil Engineering Institute specializing in Machinery Engineering and Equipment. Mr. Zhang joined HE in 1986, and has worked as a technician, the deputy head of technical room, deputy director and director of the Coil Factory of Electric Machinery Company of the Group and head of equipment department of Electric Machinery Company. He has been the head of the Organization Department of Party Committee of Electric Machinery Company since March 2013 and a supervisor representing employees of the Company since November 2014.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

SENIOR MANAGEMENT

Mr. Liu Zhi-quan, born in July 1968, is a senior accountant and certified public accountant in China with a doctor's degree. He now serves as the senior vice-president of the Company and a chief accountant of HE. Mr. Liu graduated from Harbin Institute of Technology, majoring in industrial accounting with a bachelor's degree. He subsequently obtained a doctorate degree from the same university. Mr. Liu joined HE in 1991. He has been an assistant to the director of finance department of the Boiler Company of the Group, the deputy director and the director, and the deputy chief accountant and head of finance department of the Group. He was appointed as the deputy general manager of the Harbin Boiler Company Limited in April 2001. Mr. Liu has been serving as deputy general manager of the Company since September 2006, Vice-President of the Company since March 2013 and senior vice-president of the Company since November 2014. He assumed the post as the company secretary of the Company from January 2012 to January 2013.

Mr. Xie Wei-jiang, born in January 1973, is a holder of a master's degree in engineering, senior engineer and currently a senior vice-president and standing committee member of the Party Committee of the Company, and a standing committee member of the Party Committee and a deputy general manager of HE. Mr. Xie graduated from Southeast University in 1997 with a master's degree in thermal engineering, and was then employed and served as deputy manager, manager and deputy chief engineer of the integrated business department of China National Water Resources & Electric Power Materials & Equipment Co., Ltd., general manager and deputy chief engineer of Beijing Guodian Engineering Tender Co., Ltd. (北京國電工程招標有限公司), general manager of Beijing Zhongtang Electrical Engineering Consultancy Co., Ltd. (北京中唐電工程諮詢有限公司), deputy head of the materials management department of China Datang Corporation, general manager and deputy secretary of the Party Committee of China National Water Resources & Electric Power Materials & Equipment Co., Ltd., and general manager and deputy secretary of the Party Committee of China National Water Resources & Electric Power Materials & Equipment Group Co., Ltd. He served as director of the general office of China Datang Corporation in December 2016, director of the general office and member of the Party Discipline Inspection Committee of China Datang Corporation Ltd., Datang International Power Generation Co., Ltd. and China Datang Corporation Renewable Power Co., Ltd. in December 2017, standing committee member of the Party Committee and deputy general manager of HE since August 2018, and a senior vice-president and standing committee member of the Party Committee of the Company since November 2018.

Mr. Lu Zhi-qiang, born in September 1973, is a holder of a doctoral degree in engineering and a senior engineer of researcher level. He is currently a senior vice-president and standing committee member of the Party Committee of the Company, and a standing committee member of the Party Committee and the deputy general manager of HE. Mr. Lu graduated from Harbin Institute of Technology with a degree in thermal turbine, and obtained a Ph.D. in dynamical machinery and engineering from Harbin Institute of Technology. Mr. Lu joined HE in 1995. He has served as a designer of the design institute, deputy chief designer of the design research center (design institute), deputy head of the design research center, vice principal of the research institute, head of the technical management department and deputy chief engineer of Harbin Turbine Company Limited. He served as the assistant to the general manager of Harbin Turbine Company Limited in September 2009, deputy general manager of Harbin Turbine Company Limited in June 2011, executive deputy general manager of Harbin Turbine Company Limited in March 2015, general manager and deputy secretary of the Party Committee of Harbin Turbine Company Limited in January 2016, chairman and secretary of the Party Committee of Harbin Turbine Company Limited in March 2017, standing committee member of the Party Committee and deputy general manager of HE since August 2018, and a senior vice-president and standing committee member of the Party Committee of the Company since November 2018.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Wang De-xing, born in September 1959, is a holder of a master's degree in business administration and a senior economist of researcher level. He is currently a vice president of the Company, and the chief economist of HE. Mr. Wang was graduated from the School of Materials Science and Engineering of Beijing Steel and Iron Institute (北京鋼鐵學院) and obtained an MBA degree from the Harbin Institute of Technology. Mr. Wang joined HE in 1982 and held various positions ever since, such as a technician of the central laboratory, secretary and acting manager of the heavy vessel factory of Harbin Boiler Works which used to be a member of the Group, as well as a secretary, factory manager, head of water wall branch, deputy chief economist and director of labor affairs, deputy general manager, deputy managing director, chairman and general manager of pipe first branch factory of Harbin Boiler Company Limited, before taking the position of the chief economist of HE in October 2016. He has been the Vice President of the Company since October 2016.

Mr. Zhang Hai-quan, born in September 1961, is a senior engineer with an MBA degree. He now serves as a vice-president of the Company and an assistant to the general manager of HE. Mr. Zhang graduated from Harbin Institute of Electrical Engineering in 1984 and joined HE in the same year. He has been an engineer of the enginery repairing workshop, the secretary and an assistant to the director of the Communist Party Committee Office of the former Boiler Works of the Group. In 1994, Mr. Zhang participated in the reorganization of HE to be a shareholding enterprise and the issuance and listing of the Company's shares. Since November 1994, he has been appointed as the deputy director of the general manager office, the deputy director of the planning department and director of the enterprise management department, and the director of the auditing and law department of the Boiler Company of the Group. Since 1998, he was a member of the HE's and the Company's Standing Communist Party Committee and director of the organization department. Since 1999, Mr. Zhang was appointed as the secretary of the Communist Party Committee and vice chairman of Archeng Relay Group Company and Archeng Relay Company Limited. He has been serving as the deputy general manager of the Company since September 2000 and the Vice-President of the Company since March 2013.

Mr. Qu Zhe, born in July 1962, is a senior engineer with a postgraduate degree. He now serves as the vice-president of the Company and an assistant to the general manager of HE. Mr. Qu graduated from Harbin Shipbuilding Engineering Institute with a master's degree in August 1988 and joined HE in the same year. He has been an assistant engineer, business representative in Pakistan and engineer of Harbin Power Station Equipment Import And Export Company, and served as the deputy general manager of the company since February 1994. Since November 1994, he was appointed as the deputy manager of operation and development department of Harbin Power Engineering Company Limited, deputy general manager and deputy manager of operation and development department of cycle power plant project in UCH, Pakistan, deputy chief engineer, assistant to general manager of the company. He served as the executive deputy general manager of Harbin Power Engineering Company Limited since November 1999, general manager of the company since April 2003, and chairman and Party Secretary since September 2007 respectively. Mr. Qu has been serving as deputy general manager of the Company since June 2010 and vice-president of the Company since March 2013.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

COMPANY SECRETARY

Mr. Ai Li-song, born in March 1970, is a senior economist with a master degree. He is currently a company secretary, deputy manager of the securities and legal department and a deputy director of the secretariat of the Board of the Company. Mr. Ai graduated from Jilin University of Technology majoring in technical economics and he obtained a master degree from Harbin Institute of Technology. Mr. Ai has been a staff of the former Harbin Electric Machinery Works, a subsidiary of the Company, General Manager of the Sales Office of Shenyin & Wanguo Securities Co., Ltd. (申銀萬國證券公司) at Nanma Road, Harbin, deputy manager of the investment and reforming department and manager of investment management department of HE Corporation, manager of the planning and development department of HE Corporation and the Company, and director of the secretariat of the Board. Mr. Ai has been deputy manager of the securities and legal department and a deputy director of the secretariat of the Board since February 2016, and a company secretary of the Company since May 2015.

REPORT OF THE DIRECTORS

PRINCIPAL ACTIVITIES

The Group is mainly engaged in the manufacture and sales of various kinds of power generation equipment and provision of power station engineering services, and its major businesses currently include: manufacturing of large scale thermal power, hydro power, nuclear power and its ancillary equipment, turnkey construction of power station projects, development, design and manufacturing of major products such as power equipment of ships and electric power equipment etc. The operations of the Group are mainly located in China, with approximate two-third of its revenue deriving from China.

In 2018, the revenue from export of the Group amounted to RMB7,397.40 million, representing 28.58% of the Group's operating income, representing a year-on-year decrease of RMB3,205.75 million. The Group's major regions for export included Asia and South America, which respectively amounted to RMB6,841.70 million and RMB382.96 million.

BUSINESS REVIEW

Details of a fair review of the Group's business in 2018, key financial performance indicators and possible future developments of the Group are set out in the section headed "Management Discussion and Analysis" of this Annual Report.

Major Risks and Uncertainties

In 2018, the Group actively carried out the collection and analysis of risk information. In line with the characteristics of the industry, the Group categorized, gathered, weighted and analyzed the five types of risk information from strategy, market, finance, law, and operations. By adopting a "from bottom to top, vertical and horizontal integration, internal and external combination" evaluation method, it identified three major risks, such as business structure and transformation risk, cash flows risk as well as internal integration and synergistic risk, etc., and took effective measures to reduce the risk.

REPORT OF THE DIRECTORS (CONTINUED)

| Risk type | Risk description | Countermeasures |
|--|---|--|
| Business structure and transformation risk | With a single product structure, the traditional power generation equipment accounted for a larger portion, and the development of new industries was slow. The strategic layout of product structure adjustment and transformation explored slowly and the substitution effect of new industries was not obvious. | (1) Put more effort into policy researching; (2) Accelerate the development of new industries. |
| Cash flows risk | In 2018, the Group' s monetary capital declined significantly. It is expected that the capital size will continue to decline in general in 2019, and the cash flow risk trend to spread to its owned enterprises due to the continuous low level of market order. | (1) Ramp up efforts in market development; (2) Continuously promote collection of receivables; (3) Focus on prevention of capital risk; (4) Continue to strengthen budget management for capital; (5) Actively expand financing channels. |
| Internal integration and synergistic risk | The implementation of the industrial planning with the business department as the main body was not in place, and the industrial management system was not sound; Functional departments, business departments and owned enterprises under the headquarters did not synergize well, and the overall coordination of business departments is still subject to improvement. | (1) Integrate businesses of the same type; (2) rationalize the management relationship of business department; (3) promote the transformation of business models with business department as the main body; (4) develop smooth and easy channels for information and communication. |

REPORT OF THE DIRECTORS (CONTINUED)

Significant Events Affecting The Group

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

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

For details, please refer to the announcement dated 24 December 2018 published by the Company on the website of The Stock Exchange of Hong Kong Limited.

Other significant events affecting the Group in 2018 are set out in the section headed "Disclosure of Significant Events" in this annual report.

Environmental Policy and Performance

In 2018, the Group continued to realize its social responsibility of "Friendly Environment, Warm Home" to highlight scientific development as the main principle, devoted into maintaining a high standard of corporate governance, continuously enhanced supply chain management, and improved product quality to upgrade the operation value. It continued to carry out environmental protection activities, vigorously promote energy conservation and emission reduction, enhance the harmonious relationship between human and nature, maintain effective communication with employees, suppliers, customers, market investors, and other stakeholders, taking the interests of related parties into account, creating a mutually beneficial and win-win relationship to continuously promote the healthy development of the Company.

REPORT OF THE DIRECTORS (CONTINUED)

Compliance with Relevant Laws and Regulations

In 2018, none of non-compliant events occur to the Group with respect to relevant laws and regulations that have a significant impact on the business of the Group. Relevant laws and regulations are listed as follows:

| Principal Laws and Regulations | Key scope | Compliance Measures |
|---|--|---|
| Contract Law of the People's Republic of China | The Company's business contract signed with customers must comply with basic requirements stipulated in the Contract Law. | <ol style="list-style-type: none">1. Business contracts signed by each business department of the Company need to be reviewed by the company's legal advisers.2. The legal adviser puts emphasis on reviewing the main terms of the contract subject, contract subject, quantity, quality, price or remuneration, performance period, place, method, liability for breach of contract and dispute resolution, proposes amendments and controls contract legal risk of the Company. |
| Securities Law of the People's Republic of China and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited | Relevant regulations required to be comply with by the Company as a securities issuer. | The company appoints professional legal advisers to assist with related work as the securities issuer and formulates related systems to regulate internal governance and information disclosure and other related works. |
| Tendering and Bidding Law of the People's Republic of China | The tendering activities and procurement of the Company must be strictly carried out in accordance with the Tendering and Bidding Law. | <ol style="list-style-type: none">1. Participating in the bidding, the Company must set up a particular team to convene evaluation meeting before bidding, and departments including operation, finance and legal shall attend the meeting and give professional advices.2. In accordance with the "Administrative Measures on Tendering Procedures" and other regulations, the Company must conduct open tendering or selective tendering if purchases of goods or services reach certain amount. |

REPORT OF THE DIRECTORS (CONTINUED)

| Principal Laws and Regulations | Key scope | Compliance Measures |
|--|---|---|
| Labor Law of the People's Republic of China and Labor Contract Law of the People's Republic of China | When entering into or terminating an employer-employment relationship, provisions of the Labor Law and the Labor Contract Law must be followed by both the Company and employees. | A fixed labor contract model and cancelling clauses reviewed by the legal department should be possessed by the human resources department of the Company. |
| Intellectual property rights laws, mainly include: Copyright Law, Patent Law, Trademark Law | Relevant laws on intellectual property rights should be strictly abided by on the production and operation, technology research and development and commercial brand protection of the Company. | The Company's technology management department is responsible for centralized management of the Company's intellectual property rights. The assistance from legal adviser of the Company is required by the application of intellectual property rights and the protection of trademark and goodwill. Electric Machinery Company and Boiler Company, subsidiaries of the Company, have successfully applied for well-known trademarks in China. |

Employees, Major Customers and Suppliers

1. Employees

As of 31 December 2018, the Group had 15,783 employees, of which female employees totaled 2,743, accounting for 17.38%. The Company had a workforce of 13,741 current employees, of which female employees totaled 2,456, accounting for 17.87%, 1,154 employees aged above 55, accounting for 8.4%; 2,126 employees aged 50–54, accounting for 15.47%, 3,894 employees aged 40–49, accounting for 28.34%, 5,035 employees aged 30–39, accounting for 36.64% and 1,532 employees aged below 29, accounting for 11.15%.

In 2018, with recent decline in domestic demand for coal and electricity, the Group implemented reallocation and job reassignment plan for excessive employees and reduced labor costs to increase its competitiveness in the market, which results in a decrease in the total amount of employee from 2017.

In 2018, the Group organized 1,690 classes in total for various trainings, with over 68,600 persons participating in.

2. Major suppliers

As of 31 December 2018, the top five suppliers of the Group attributed 19.99% of the total purchases, of which the largest supplier accounted for 12.52% of the total purchases.

REPORT OF THE DIRECTORS (CONTINUED)

3. Major customers

As of 31 December 2018, the Group's top five customers attributed 37.05% of total operating revenue, of which the largest customer accounted for 20.34% of total operating revenue.

None of the Directors, Supervisors, their associates and any shareholders of the Company (which to the knowledge of the Board of Directors own 5% or above of the Company's shares) has any interest in the above-mentioned suppliers or customers.

LIST OF SUBSIDIARIES AND DIRECTORS OF SUBSIDIARIES

Details of major subsidiaries of the Company and directors of the subsidiaries as of 31 December 2018 are set out in note 8 to the financial statements of this annual report.

RESULTS

As of 31 December 2018, the operating income of the Group amounted to RMB25,879.46 million, and net profit attributable to the owners of the parent company was RMB71.32 million. The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement of this annual report.

DIVIDEND

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

As of 31 December 2018, the Company received no notification from any shareholders to waive or agree to waive any dividends.

INFORMATION ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of Directors and Supervisors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

REPORT OF THE DIRECTORS (CONTINUED)

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

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

CONTRACTS OF SIGNIFICANCE WITH THE CONTROLLING SHAREHOLDERS OR THEIR SUBSIDIARIES

As of 31 December 2018, save as the connected and continuing connected transactions entered into by the Group and HE as disclosed in "Report of the Directors", no contract of significance was entered into between the Group and the controlling shareholders or their subsidiaries.

REPORT OF THE DIRECTORS (CONTINUED)

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

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

(Unit: RMB)

| | Fees | Salaries and other benefits | Contribution to retirement benefits scheme | Total |
|---|----------|--------------------------------|--|------------------|
| Executive Directors | | | | |
| Mr. Si Ze-fu | 0 | 0 | 0 | 0 |
| Mr. Wu Wei-zhang | 0 | 618,530 | 96,499 | 715,029 |
| Mr. Zhang Ying-jian | 0 | 553,845 | 91,721 | 645,566 |
| Mr. Song Shi-qi | 0 | 550,130 | 89,741 | 639,871 |
| Total | 0 | 1,722,505 | 277,961 | 2,000,466 |
| Independent Non- Executive Directors | | | | |
| Mr. Zhu Hong-jie | 0 | 60,000 | 0 | 60,000 |
| Mr. Yu Wen-xing | 0 | 60,000 | 0 | 60,000 |
| Mr. Hu Jian-min | 0 | 60,000 | 0 | 60,000 |
| Mr. Tian Min (appointed on 21 March 2018) | 0 | 50,000 | 0 | 50,000 |
| Total | 0 | 230,000 | 0 | 230,000 |
| Supervisors | | | | |
| Mr. Feng Yong-qiang | 0 | 31,020 | 7,478 | 38,498 |
| Mr. Chen Guang | 0 | 372,480 | 75,435 | 447,915 |
| Mr. Zhu Peng-tao | 0 | 198,764 | 40,589 | 239,353 |
| Mr. Zhang Wen-ming | 0 | 367,524 | 33,444 | 400,968 |
| Mr. Zhang Jun-quan | 0 | 405,479 | 58,162 | 463,641 |
| Total | 0 | 1,375,267 | 215,108 | 1,590,375 |

Details of the remuneration of directors, supervisors and senior management of the Company as of 31 December 2018 are set out in note XI(5) to the financial statements in this annual report.

REPORT OF THE DIRECTORS (CONTINUED)

FIVE HIGHEST PAID PERSONNEL

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

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

CONTINGENT LIABILITIES – GUARANTEES

As of 31 December 2018, total internal guarantees in favour of the Group made by the Company and its subsidiaries amounted to RMB2,035.42 million. No external guarantee was provided. Details of guarantees are set out in note XII(2) to the financial statement of this annual report.

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 2018 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

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

STAFF REMUNERATION, RETIREMENT AND BENEFITS SCHEME

In 2018, the Group continued to deepen its remuneration reform, and further increased the salary distribution to its production core 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.

REPORT OF THE DIRECTORS (CONTINUED)

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

Details of the staff retirement and benefits scheme are set out in Note VI(26) to the financial statements in this annual report.

FIXED ASSETS

REPORT OF THE DIRECTORS (CONTINUED)

TAX POLICIES

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

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

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

Under the Opinions of Central Committee of the Communist Party of China and the State Council on the Comprehensive Revitalization of Historical Industrial Bases of the Northeast Regions (《中共中央國務院關於全面振興東北地區等老工業基地的若干意見》) in 2016, the Group will continue to enjoy the relevant favourable policies in supporting such revitalization for historical industrial bases of the northeast regions.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Group has established Measures for Managing Connected Transactions (《關連交易管理辦法》) to regulate performance of connected transactions and continuing connected transactions. The continuing connected transactions of the Company are monitored by the responsible departments, including the economic operations department, asset finance department and secretariat of the Board. The amendment of relevant system and pricing policies are carried out by the responsible departments which are in charge of relevant works and shall be approved by the Board after discussion with the management of the Company. In addition, relevant pricing systems, process and their implementation are supervised by the responsible departments, and those of our subsidiaries were monitored by relevant departments so as to ensure continuing connected transactions were carried out in accordance with their systems.

The annual review of continuing connected transactions by independent non-executive directors of the Company were based on the annual progress of continuing connected transactions detailed state in the annual report and financial report of the Company, and also the review letter of annual progress of continuing connected transactions issued by the auditor of the Company. The independent directors, where appropriate, inquiry to the management to ensure that sufficient information is obtained to review such transactions and internal control procedures. The independent non-executive directors can ensure that (i) the methods and procedures established by the issuer are sufficient to ensure that the transaction conducted on normal commercial terms and does not prejudice the interests of the issuer and the minority shareholders; and (ii) the issuer has in place internal monitoring procedures, and these transactions were also reviewed by internal audit function.

REPORT OF THE DIRECTORS (CONTINUED)

Details of connected transactions and continuing connected transactions of the Company as of 31 December 2018 are set out Note XI(5) to the financial statements in this annual report. The Company also confirmed that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of such connected transactions and continuing connected transactions.

As of 31 December 2018, the Group carried out the following connected transactions and continuing connected transactions (other than connected transactions that are exempted under Rule 14A.33 of the Listing Rules):

Continuing Connected Transactions

1. *Product and Service Framework Agreement between the Company and Harbin Electric Corporation Co., Ltd ("HE")*

On 9 December 2016, the Company entered into a product and service framework agreement with HE, pursuant to which, the Group and HE (together with its subsidiaries excluding the Group, "the Unlisted Harbin Electric Group") will provide products and services to each other during the three financial years from 1 January 2018 to 31 December 2019.

During the financial year from 1 January 2018 to 31 December 2018, the transaction cap for providing services by the Group to the Unlisted Harbin Electric Group was RMB2.00 million, while the actual transaction amount was RMB30,000; the transaction cap for selling products to the Unlisted Harbin Electric Group was RMB12.00 million, while the actual transaction amount was zero. The transaction cap for receiving services by the Group from the Unlisted Harbin Electric Group was RMB84.00 million, while the actual transaction amount was RMB64.16 million; the transaction cap for purchasing products to the Unlisted Harbin Electric Group was RMB195.00 million, while the actual transaction amount was RMB19.59 million. The amounts of such transactions did not exceed the cap.

2. *Financial Service Framework Agreement between the Company and HE*

On 9 December 2016, the Company and HE entered into a financial service framework agreement, pursuant to which, HE Finance Company Limited (the "Finance Company"), a subsidiary of the Company, will provide financial services including depository services, loan services and other financial services to the Unlisted Harbin Electric Group, from 31 December 2016 to 30 December 2019.

During the financial year from 1 January 2018 to 31 December 2018, the Unlisted Harbin Electric Group has highest cumulative daily loan services balance from the Finance Company was RMB220.00 million, of which the actual transaction amount was RMB190.00 million; the maximum service charges and handling fees from other financial services provided by the Finance Company to the Unlisted Harbin Electric Group was RMB2.80 million, of which the actual transaction amount was zero, both of which did not exceed the cap.

REPORT OF THE DIRECTORS (CONTINUED)

3. *Management Entrustment Agreement between the Company and HE*

On 29 January 2016, the Company entered into the Management Entrustment Agreement with HE, pursuant to which, the Company will provide management services to HE, including but not limited to administration management, human resources and compensation management (including external affairs management), technology and quality control, assets and financial management, integrated organization management, statistic and economic operations management, auditing and internal control management, investments management, strategic developments management, legal affairs management, communications management, marketing management, projects management, production safety management, procedure monitoring management, political affairs and other affairs management. Term of the agreement was from 23 March 2016 to 22 March 2019 and HE shall pay an annual management entrustment fee of RMB3.28 million to the Company.

As of 31 December 2018, HE has fully paid the management fee of RMB3.28 million to the Company.

Confirmation on Continuing Connected Transactions

The Independent Non-Executive Directors of the Company have reviewed the continuing connected transactions (as defined in the Listing Rules) set out in Note XI to the financial statements and confirmed that:

1. these continuing connected transactions had been entered into according to the agreement governing them on terms that are fair and reasonable and in the interests of shareholders of the issuer as a whole;
2. these continuing connected transactions had been entered into on normal commercial terms or better;
3. these continuing connected transactions had been entered into in the ordinary and usual course of business of the issuer.

The auditors of the Company have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules and confirmed that:

A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

REPORT OF THE DIRECTORS (CONTINUED)

DETAILS OF SHARE CAPITAL

Shareholding Structure

As of 31 December 2018, the total share capital of the Company comprised 1,706,523,000 shares, of which 1,030,952,000 Domestic Shares (state-owned corporate shares) were held by the HE (representing 60.41% of the entire share capital) and 675,571,000 H shares were held by overseas holders of H shares (representing 39.59% of the entire share capital).

Equity Interests of Substantial Shareholders

As of 31 December 2018 and up to the date of this annual report, the shareholders having an interest and short positions in 5% or more of the issued share capital of the Company of the relevant classes as recorded in the register of interests in shares and short positions required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the "SFO") were as follows:

Long positions in the shares of the Company:

| Date | Name of shareholders | Class of shares | Number of shares | Capacity | Percentage of the relevant class of share capital | Percentage of entire share capital |
|------------------------|---------------------------------------|---------------------------------|------------------|------------------|---|------------------------------------|
| As at 31 December 2018 | Harbin Electric Corporation Co., Ltd. | State-owned legal person shares | 1,030,952,000 | Beneficial Owner | 100% | 60.41% |

Save as disclosed above, the register required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as of 31 December 2018.

REPORT OF THE DIRECTORS (CONTINUED)

Holding Range of Shareholders

The Company has sufficient public float. As of 31 December 2018, the top ten registered shareholders holding the largest quantity of shares were as follows:

| No. | Name of Shareholder | Number of Shares | Percentage of Shares Held | Remarks |
|-----|---------------------------------------|------------------|---------------------------|---------------------------------|
| 1 | HARBIN ELECTRIC CORPORATION CO., LTD. | 1,030,952,000 | 60.41% | State-owned legal person shares |
| 2 | HKSCC NOMINEES LIMITED | 627,978,598 | 36.80% | H shares |
| 3 | TANG KEUNG LAM | 28,000,000 | 1.64% | H shares |
| 4 | TANG'S INVESTMENTS LIMITED | 17,000,000 | 1.00% | H shares |
| 5 | YIP CHOK CHIU | 360,000 | 0.02% | H shares |
| 6 | CHEUNG YUM TIN | 200,000 | 0.01% | H shares |
| 7 | HO YUN HUNG | 200,000 | 0.01% | H shares |
| 8 | NG KAM WAN | 110,000 | 0.01% | H shares |
| 9 | HO CHI KUN | 100,000 | 0.01% | H shares |
| 10 | NAM LEE FAT | 88,000 | 0.01% | H shares |

REPORT OF THE DIRECTORS (CONTINUED)

Analysis of Shareholding of Holders of H Shares

Based on the register of members as at 31 December 2018, the shareholding of holders of H shares as follows:

| Range | Number of Shareholders | Number of Shares Held | Percentage to Issued H Shares |
|-----------------------------|------------------------|-----------------------|-------------------------------|
| 1–1,000 | 4 | 402 | 0.00% |
| 1,001–5,000 | 46 | 128,000 | 0.02% |
| 5,001–10,000 | 43 | 344,000 | 0.05% |
| 10,001–100,000 | 44 | 1,250,000 | 0.19% |
| 100,001 and above | 7 | 673,848,598 | 99.75% |
| Rounding (to whole numbers) | | | -0.01% |
| Total | 144 | 675,571,000 | 100.00% |

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 2018, 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.

REPORT OF THE DIRECTORS (CONTINUED)

AUDIT COMMITTEE

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

AUDITORS

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

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

7 March 2019

REPORT OF THE BOARD OF SUPERVISORS

To all shareholders:

For the year ended 31 December 2018, all members of the Board of Supervisors (“the Board of Supervisors”) of Harbin Electric Company Limited (“the Company”) duly performed their functions with taking the interests of the Company and all shareholders into account in accordance with the relevant regulations of the Company Law of the People’s Republic of China, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Articles of Association of the Company. The Board of Supervisors has carried out an all-round supervision on significant decision matters including operation management, financial conditions and dividend distribution of the Company. In addition, the Board of Supervisors actively participated in significant events of the Company, such as the production and operation of the Company, which promoted the Company’s work in a smooth manner.

During the period, the Board of Supervisors convened two meetings and attended five Board meetings in person.

Attendance of Supervisors at meetings in 2018

| Name of Directors | Number of attendance required in meetings of the Board of Supervisors | Attendances in person | Attendance rate | Number of attendance required in the Board meetings | Attendances in person | Attendance rate |
|---------------------|---|-----------------------|-----------------|---|-----------------------|-----------------|
| Mr. Feng Yong-qiang | 2 | 1 | 50% | 5 | 1 | 20% |
| Mr. Chen Guang | 2 | 2 | 100% | 5 | 5 | 100% |
| Mr. Zhang Wen-ming | 2 | 2 | 100% | 5 | 5 | 100% |
| Mr. Zhang Jun-quan | 2 | 2 | 100% | 5 | 5 | 100% |
| Mr. Zhu Peng-tao | 2 | 2 | 100% | 5 | 5 | 100% |

For all related works of the Company in 2018, the Board of Supervisors gave the following independent opinions:

1. During the period, the Company strictly complied with the nation’s laws and regulations, operated in accordance with the procedures regulating listing companies, and duly executed various resolutions passed at the general meetings. The Company achieved satisfying results from all works during the year, which laid a solid foundation for the smooth and sound development of the Company.

REPORT OF THE BOARD OF SUPERVISORS (CONTINUED)

2. The Board of Supervisors considered that the Board of Directors and Senior Management of the Company have duly and actively performed their duties and protected the interests of the shareholders. The Board and all Directors earnestly carried out their rights and obligations under the Company Law of the People's Republic of China, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Articles of Association of the Company, made decisions on significant issues such as production and operation of the Company in accordance with laws and regulations. The Senior Management duly implemented resolutions passed at the Board meetings, advanced each work on all fronts and ensured smooth going concern of the Company. During the period, none of the members of the Board and Senior Management was found to breach of the nations' laws and rules and the Articles of the Association of the Company or act against the interests of the Company, the shareholders and employees.
3. The Board of Supervisors has reviewed the Company's financial system and conditions and considered that the Company's financial system has an integrated structure and a sound system, and the financial works have been operated orderly according to the internal control system and risk management. Relevant information such as annual financial report and the dividend payment scheme to be proposed by the Board of Directors for approval at the Annual General Meeting has objectively and truly reflected the financial position and operating results of the Company. The dividend payment scheme has taken into account both the interests of the shareholders and the Company's long-term development. Statutory surplus reserve made in the year has complied with the provisions of the laws and regulations and the Articles of Association of the Company.
4. The Board of Supervisors has reviewed the Report of the Directors and considers that the report truly and objectively reflected the actual conditions of each related work of the Company during the period.

The Board of Supervisors sincerely appreciates the trust and support from all colleagues and the shareholders of the Company, and will continue to explore new supervisory approaches and methods, further consolidate resources for supervision so as to enhance our management, assisting and ensuring the realization of the Company's targets for all works.

By order of the Board of Supervisors

Feng Yong-qiang

Chairman

Harbin, the PRC

7 March 2019

CORPORATE GOVERNANCE PRACTICES

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. The Board of the Company is committed to maintaining a high standard of corporate governance, and believes that good corporate governance practices are crucial to the success and sustainable development of the Company's operation in the long run.

In 2018, the Company has fully complied with all code provisions set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong and, where appropriate, adopted the recommended best practices as specified therein.

The Board of the Company is responsible for the corporate governance functions. In 2018, the Board of the Company has strictly observed the policies and practices in compliance with laws and regulatory requirement, and also enacted and amended its regulations with reference to those policies and practices, with an aim to perfect our corporate governance policies and practices. The Company continues to focus on the training and continuing professional development of directors and senior management, and actively carries out internal review and rectification work to improve the level of the Company's governance.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules of The Stock Exchange of Hong Kong as the code of conduct regarding directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code for Securities Transactions by Directors of Listed Issuers at all applicable times during 2018.

BOARD OF DIRECTORS

The major duties of the Board of Directors of the Company are to exercise the discretion in management decision according to the authorization by the general meeting with respect to the development strategies, management structure, investment and financing, planning and management and financial control, details are set out in the Articles of Association.

Composition of Board of Directors

During 2018, the Board of Directors of the Company has 8 directors, of which 4 are independent non-executive directors. During the period, on 21 March 2018, the Board of directors appointed Mr. Tian Min as independent non-executive directors in accordance with the authorization from the general meeting. As of 31 December 2018, members of the Board of Directors of the Company were:

Executive directors: Si Ze-fu (Chairman), Wu Wei-zhang, Zhang Ying-jian, Song Shi-qi

Independent non-executive directors: Zhu Hong-jie, Yu Wen-xing, Hu Jian-min, Tian Min

CORPORATE GOVERNANCE REPORT (CONTINUED)

Biographies of the members of the Board of Directors are included in the section headed "Directors, Supervisors and Senior Management" in this annual report.

There were no financial, business, family or other material or relevant relationships among members of the Company's Board of Directors.

Independent non-executive directors

During 2018, the Board of Directors of the Company was comprised of 4 independent non-executive directors, namely Mr. Zhu Hong-jie, Mr. Yu Wen-xing, Mr. Hu Jian-min, Mr. Tian Min.

During the reporting period, all the Independent non-executive Directors attended the meetings of the Board of Directors with a prudent and responsible attitude during the term of directorship. They fully utilized their experiences and expertise, made substantial contribution towards the improvement and perfection of the corporate governance mechanism, the important decision-making process and the review of connected transactions. They also provided balanced and objective advice with regard to important decisions and connected transactions of the Company, further standardized the decision-making process of the Board of Directors and made this process more scientific, thereby protecting the interests of the Company and all shareholders as a whole.

The Company confirmed that it has received annual confirmation from each independent non-executive director in respect of his/her independence.

Meetings of the Board of Directors

During 2018, the Board of the Company convened 14 meetings to discuss and make decision on the major issues in the production and operation of the Company, including the Company's overall strategy, investment plan, operation and financial performance, appointment and removal of major personnel, and major institutional adjustments, 5 of which were regular meetings that directors presented in person or by authorized proxy. The Independent non-executive Directors of the Company did not have dissenting opinions regarding any of the Company's decisions. Attendances of the meetings are as follows:

Attendance of Directors at meetings of the Board of Directors in 2018

| Name of Director | Number of Attendance Required | Attendances in Person | Number of Attendance by Alternate Director | Attendance rate |
|---------------------|-------------------------------|-----------------------|--|-----------------|
| Mr. Si Ze-fu | 14 | 14 | 0 | 100% |
| Mr. Wu Wei-zhang | 14 | 13 | 1 | 92.86% |
| Mr. Zhang Ying-jian | 14 | 13 | 1 | 92.86% |
| Mr. Song Shi-qi | 14 | 14 | 0 | 100% |
| Mr. Zhu Hong-jie | 14 | 13 | 1 | 92.86% |
| Mr. Yu Wen-xing | 14 | 14 | 0 | 100% |
| Mr. Hu Jian-min | 14 | 14 | 0 | 100% |
| Mr. Tian Min | 12 | 12 | 0 | 100% |

CORPORATE GOVERNANCE REPORT (CONTINUED)

The relevant information and latest development of the statutory, regulatory and other continuous responsibilities of the Company's Board of Directors can be obtained by all Directors through the Company Secretary in a timely manner, so as to ensure all Directors understand his/her duties, and the procedures of the Board of Directors are consistently followed by and applicable laws and regulations are duly complied with. The Directors and the Board of Directors' special committees of the Company have the right to engage independent professional organizations for their service according to the requirement of their duties; reasonable costs incurred therefrom are borne by the Company.

In 2018, the Company held the annual general meeting, general meeting for holders of H Shares and general meeting for holders of Domestic Shares once respectively, and all the directors attended the general meeting.

Attendance of Directors at general meeting in 2018

| Name of Director | Number of Attendance Required | Attendances in Person | Attendance rate |
|-------------------------|--------------------------------------|------------------------------|------------------------|
| Mr. Si Ze-fu | 3 | 3 | 100% |
| Mr. Wu Wei-zhang | 3 | 3 | 100% |
| Mr. Zhang Ying-jian | 3 | 3 | 100% |
| Mr. Song Shi-qi | 3 | 3 | 100% |
| Mr. Zhu Hong-jie | 3 | 3 | 100% |
| Mr. Yu Wen-xing | 3 | 3 | 100% |
| Mr. Hu Jian-min | 3 | 3 | 100% |
| Mr. Tian Min | 3 | 3 | 100% |

CORPORATE GOVERNANCE REPORT (CONTINUED)

The management of the Company is authorized by the Board to be responsible for the management of the Company's operations and day-to-day affairs, and to report to the Board. In 2018, the management of the Company takes its responsibilities seriously and conscientiously by constantly improving the Company's management level and preventing from risks, to ensure the steady and healthy development of the Company throughout the year.

Training of the Directors

Ongoing development and training helps Directors keep abreast of current trends and issues facing the Company, while enabling them to update and refresh their skills and knowledge necessary for the performance of their duties. During 2018, the Company actively organized the training and provided sustainable development opportunities for the Directors, and reported the daily business briefing and market information of the Company, which greatly strengthened the knowledge and skills necessary for all the Directors.

In 2018, the directors of the Company attended the training courses such as training course for external directors of central enterprises organized by the SASAC, and listened to the specialized seminars such as key work related to macroeconomic situation analysis and the central enterprise reform and development; the executive directors of the Company attended the training courses such as "Seminar on Deepening Supply-side Structural Reform". In 2018, the directors of the Company received an aggregate of above 900 hours of training courses. These courses further enhanced the directors' skills and knowledge, enabling them to make greater contributions to the development of the Company.

CHAIRMAN AND PRESIDENT

During 2018, the Chairman of the Company was Mr. Si Ze-fu, and the President of the Company was Mr. Wu Wei-zhang.

Positions of the Chairman and the President of the Company are held by different individuals with distinct division of responsibilities. The Chairman presides over meetings of the Board of Directors and reviews on the implementation of matters resolved by the Board of Directors. The President is responsible for management and coordination of the operations of the Company, implementation of the resolutions passed by the Board of Directors and making day-to-day decisions.

CORPORATE GOVERNANCE REPORT (CONTINUED)

SPECIAL COMMITTEES UNDER THE BOARD

The Board of the Company has established four special committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy Development Committee, whose members are all Directors of the Company.

During 2018, the meetings convened by the special committees under the Board of the Company included 2 Nomination Committee meetings; 1 Remuneration Committee meeting; 2 Audit Committee meetings; and 3 Strategy Development Committee meeting. Each Director has attended the meeting of the committee in which he/she acted as a member, and had a thorough discussion on the related issues, providing quality, constructive opinions and advices. Attendances of the meetings are as follows:

Attendance of Directors at meetings of special committees under the Board in 2018

| Name of Director | Audit Committee | | | Nomination Committee | | | Remuneration Committee | | | Strategy Development Committee | | |
|---------------------|---------------------|-----------------------|-----------------|----------------------|-----------------------|-----------------|------------------------|-----------------------|-----------------|--------------------------------|-----------------------|-----------------|
| | Attendance Required | Attendances in Person | Attendance Rate | Attendance Required | Attendances in Person | Attendance Rate | Attendance Required | Attendances in Person | Attendance Rate | Attendance Required | Attendances in Person | Attendance Rate |
| Mr. Si Ze-fu | | | | 2 | 2 | 100% | | | | | | |
| Mr. Wu Wei-zhang | | | | | | | | | | 3 | 3 | 100% |
| Mr. Zhang Ying-jian | | | | | | | | | | 3 | 3 | 100% |
| Mr. Song Shi-qi | | | | | | | 1 | 1 | 100% | | | |
| Mr. Zhu Hong-jie | 2 | 2 | 100% | | | | 1 | 1 | 100% | | | |
| Mr. Yu Wen-xing | 2 | 2 | 100% | | | | 1 | 1 | 100% | 3 | 3 | 100% |
| Mr. Hu Jian-min | | | | 2 | 2 | 100% | | | | 3 | 3 | 100% |
| Mr. Tian Min | 2 | 2 | 100% | 1 | 1 | 100% | | | | | | |

Audit Committee

The main responsibilities of the Audit Committee under the Board of the Company are: to monitor the Company's compliance with accounting standards and rules of stock exchanges, to review and supervise the internal control and risk management of the Company, to audit interim and annual results of the Company, and to discuss any issues with the auditors.

The Audit Committee under the Board of the Company totally comprises of independent non-executive directors: prior to 21 March 2018, the members of the Audit Committee under the Board of the Company were Mr. Zhu Hong-jie and Mr. Yu Wen-xing, and chairman of the Committee was vacant. On 21 March 2018, Mr. Tian Min was appointed as chairman of the Audit Committee. As at 31 December 2018, the members of the Audit Committee under the Board of the Company were Mr. Tian Min, Mr. Zhu Hong-jie and Mr. Yu Wen-xing, and independent non-executive, Mr. Tian Min was the chairman of the Committee.

CORPORATE GOVERNANCE REPORT (CONTINUED)

In 2018, the Audit Committee held a total of 2 meetings and accomplished the following key tasks:

| No. | Summary of Work |
|-----|--|
| 1 | Agreeing the proposal of conducting entrusted investment business by subsidiaries and submitting it to the Board of Directors |
| 2 | Agreeing the proposal of renewal loan by subsidiaries and submitting it to the Board of Directors |
| 3 | Agreeing the proposal of financial writing-off of assets impairment provision made by subsidiaries and submitting it to the Board of Directors |
| 4 | Agreeing the contents in Annual Report of 2017 and submitting them to the Board of Directors |
| 5 | Agreeing the Company's self-assessment report of 2017 on internal control and risk management and submitting it to the Board of Directors |
| 6 | Agreeing the Company's contents of Interim Report of 2018 and submitting them to the Board of Directors |

The Audit Committee together with external auditor BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) have reviewed the financial statements included in the 2018 Annual Report, confirmed that these financial statements were prepared in accordance with China Accounting Standards and fairly presented the annual financial positions and results of the Group for the year ended 31 December 2018.

The Audit Committee has reviewed the self-assessment report of 2018 on internal control and risk management and confirmed that: as of 31 December 2018, the risk management and internal control system has operated effectively; the Company has adopted effective monitoring mechanism to rectify the issues in time; and the Company has properly complied with the stipulations on the risk management and internal control system in the Corporate Governance Code.

Nomination Committee

The main responsibilities of the Nomination Committee under the Board of the Company are: to make recommendations to the Board on its structure and composition according to the actual status of the Company, and to make recommendations on the election of directors and the appointment of senior management.

Before 21 March 2018, the members of the Nomination Committee under the Board of the Company included Mr. Si Ze-fu and Mr. Hu Jian-min, Chairman of the Company, Mr. Si Ze-fu being the chairman of the committee. On 21 March 2018, Mr. Tian Min was appointed as independent non-executive director and member of the Nomination Committee under the Board of the Company. As of 31 December 2018, the members of the Nomination Committee under the Board of the Company included Mr. Si Ze-fu, Mr. Hu Jian-min and Mr. Tian Min; and two thirds of the members of the Nomination Committee were independent non-executive directors, Chairman of the Company, Mr. Si Ze-fu being the chairman of the Committee.

CORPORATE GOVERNANCE REPORT (CONTINUED)

In 2018, the Nomination Committee held a total of 2 meetings and accomplished the following key tasks:

| No. | Summary of Work |
|-----|--|
| 1 | Agreeing the nomination of independent non-executive directors and submitting it to the Board of Directors |
| 2 | Agreeing the nomination of senior Vice-president and submitting it to the Board of Directors |

The Nomination Committee is committed to identifying, reviewing and screening the candidates of the director and senior management of the Company, and making recommendations to the Board after a strict consideration on various factors, such as qualification, work experience and operation capability. The Nomination Committee recognizes that diversity in Board members would be beneficial to the improvement of performance of the Company. The composition of the Board has been based on a range of diversified perspectives, including but not limited to age, educational background, professional experience, knowledge and skills.

Remuneration Committee

The main responsibilities of the Remuneration Committee under the Board of the Company are: to research into the remuneration system and policies of the Company and to make recommendations on the remuneration of the Directors and Senior Management to the Board.

As of 31 December 2018, the members of the Remuneration Committee were Mr. Yu Wen-xing, Mr. Zhu Hong-jie and Mr. Song Shi-qi, and two thirds of the members of the committee were independent non-executive directors and independent non-executive director Mr. Yu Wen-xing was the chairman of the Remuneration Committee.

In 2018, the Remuneration Committee held one meeting and accomplished the following key tasks:

| No. | Summary of Work |
|-----|--|
| 1 | Listening to the management measure of business performance appraisal of subordinate units |
| 2 | Listening to the business performance appraisal results of subordinate units in 2017 |

CORPORATE GOVERNANCE REPORT (CONTINUED)

Strategy Development Committee

The main responsibilities of the Strategy Development Committee under the Board of the Company are: to conduct research on the Company's strategic development plans, governance policies, significant investment and financing plans that require the approval of the Board, capital operation and asset operation, and to advise and make recommendations on the above matters.

As of 31 December 2018, the members of the Strategy Development Committee under the Board of the Company were Mr. Wu Wei-zhang, Mr. Zhang Ying-jian, Mr. Yu Wen-xing and Mr. Hu Jian-min and executive director Mr. Wu Wei-zhang was the chairman of the committee.

In 2018, the Strategy Development Committee held a total of 3 meetings and accomplished the following key tasks:

| No. | Summary of Work |
|-----|-----------------|
|-----|-----------------|

| | |
|---|--|
| 1 | Agreeing the related major investment issues and submitting them to the Board of Directors |
|---|--|

| | |
|---|--|
| 2 | Agreeing the 2017 governance report and submitting to the Board of Directors |
|---|--|

The Strategy Development Committee under the Board of has reviewed this report and confirmed that: the Company strived to maintain corporate governance of high standard and believed that quality governance is a key to long-term success and sustainable development of the Company's business. In 2018, the Company fully complied with the stipulations in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange and, when appropriate, adopted the recommended best practices as specified therein.

AUDITORS AND THEIR REMUNERATION

During 2018, the remuneration of BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership), the Company's auditor, amounted to RMB2.50 million. The Company did not pay the remuneration in terms of services such as the review of the interim financial statements and connected transaction letters provided by BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership).

BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) and the Board of Directors have reviewed the financial statements included in the Annual Report of 2018, confirmed that the financial statements were prepared in accordance with China Accounting Standards and fairly presented the annual financial positions and results of the Group for the year ended 31 December 2018.

The Board of Directors has recommended to the General Meeting to re-appoint BDO China Shu Lun Pan Certified Public Accountants LLP (special general partnership) as the auditors for the Company's 2019 financial statements.

CORPORATE GOVERNANCE REPORT (CONTINUED)

COMPANY SECRETARY

In 2018, Mr. Ai Li-song was the Company Secretary of the Company, and Mr. Tung Tat Chiu, Michael, Joint Secretary of the Company, will assist Mr. Ai to carry out the duties as the Company Secretary. In 2018, Mr. Ai participated in no less than 15 hours of professional training held by organizations such as the Hong Kong Institute of Chartered Secretaries.

SHAREHOLDERS RIGHTS

Pursuant to the Articles of Association, upon the requisition in writing of holders of 10% or more shares issued by the Company with voting rights, the Board shall convene an interim general meeting within two months. When the Company convenes an annual general meeting, shareholders holding 5% or more of the total shares carrying the voting right of the Company are entitled to propose new proposals to the Company in writing. The Company shall include in the agenda of that meeting those matters contained in the proposal that fall within scope of the responsibility of the general meeting.

Shareholders who intend to attend the general meeting shall give a written reply to the Company for confirming his attendance 20 days prior to the meeting.

When shareholders request to convene an interim general meeting or class meeting, the following procedures shall be followed:

- (I) Two or more shareholders who hold more than 10% (including 10%) of the shares in total with voting rights at the meeting to be held may sign one or more written request in the same format, and submit to the Board of Directors to convene interim general meeting or class meeting of shareholders and clarify the issue of the meeting. The Board of Directors shall convene an interim general meeting or a class meeting in time after receiving the above written request.
- (II) If the Board of Directors does not dispatch a notice for convening the meeting within 30 days after receiving the above written request, shareholders requesting may convene the meeting on their own within 4 months after receipt of the request by Board of Directors.

The Company safeguards interests of the shareholders, treats all shareholders equally, and initiates active participation of shareholders in corporate governance. As the stakeholders of the Company, shareholders enjoy the rights provided by laws and regulations and undertake commensurate obligations. Shareholders enjoy rights to information and rights to decision-making in respect of the Company's important matters. Shareholders may put forward their enquiries on any relevant matters to the Board. The Board shall provide sufficient information to enable these enquiries to be properly directed.

Shareholders can contact the Company via various channels, such as telephone, fax and e-mail. The recommendations of shareholders can be smoothly fed back to the Board of the Company. The copies of the minutes of general meeting are available for inspection during the business hours of the Company free of charge. Shareholders of the Company can request a copy of the minutes, the Company will send out the copy within 7 days after collection of reasonable charges.

The controlling shareholder of the Company is Harbin Electric Corporation Co., Ltd., a state-owned company registered in the People's Republic of China.

CORPORATE GOVERNANCE REPORT (CONTINUED)

INFORMATION DISCLOSURE AND MANAGEMENT OF INVESTOR RELATIONS

The Company continuously enhances its information disclosure management and promotes its investor relations management. The Company discloses information on an open, fair, true, accurate, complete and timely ground and strictly follows the related disclosure requirements of relevant laws and regulations, the Listing Rules and the Articles of Association of the Company. In our effort to enhancing the management of investor relations, the Company issues its Interim Reports and Annual Reports and discloses matters such as connected transaction and change of directors, and profitability of the Company in a timely manner and enhancing the transparency of the Company.

The Company diligently receives its investors. During 2018, the Company communicated with more than 80 investors, and organized activities such as press conferences, performance presentations and road shows, with a view to updating the investors on the Company's latest development and prospects, and in turn strengthening the relationship with the investors and enhancing the transparency of the Company.

The secretariat of the Board of the Company is responsible for the information disclosure and investor relations management. The Company strictly performs its duties, and continuously enhances its corporate governance structure so as to improve its management standard by strictly following the requirements of relevant laws and regulations of local and overseas securities regulatory organizations.

AMENDMENTS TO ARTICLES OF ASSOCIATION

There is no amendment to the Articles of Association the Company during the year of 2018.

RISK MANAGEMENT AND INTERNAL CONTROL

The Audit Committee of the Board of the Company is responsible for assessing and determining the nature and extent of risk which the Company is willing to accept in reaching its strategic goals, as well as ensuring that the Company establishes and maintains an appropriate and effective risk management and internal control system. The Board of Directors monitors and supervises the management in the design, implementation and supervision of the risk management and internal control system, while the management provides confirmation to the Board of Directors as to whether such system is effective.

The Company has a comprehensive risk management and internal control system in place, where the Board of Directors is responsible for the risk management and internal control system, and fully implements the relevant requirements of the Internal Control Guideline and continues to optimize the internal control system and self-assessments and continuous improvements. Through incentive measures and the guidance of corporate culture, the complete internal control system of the Company and its effective implementation are ensured.

The Company monitors and supervises the disclosure of financial information by the Company, as well as operations and internal control activities regularly or where necessary, so as to ensure the transparency of information disclosure and effectiveness of its risk management and internal control mechanism.

In 2018, the Company has reviewed the risk management and internal control system and has completed its self-assessment report on internal control and risk management and then approved by the Audit Committee of the Board.

To the shareholders of Harbin Electric Company Limited:

I. AUDIT OPINION

We have audited the accompanying financial statements of Harbin Electric Company Limited (the "Company"), which comprise the consolidated and parent company's balance sheets as at 31 December, 2018, the consolidated and parent company's income statements as at 31 December, 2018, the consolidated and parent company's cash flow statements, and the consolidated and parent company's statements of changes in equity, as well as notes to the financial statements.

We believe that the attached financial statements are prepared in all material respects which in accordance with the Accounting Standards for Business Enterprises, and fairly reflect the consolidated and parent company's financial position of Company as at 31 December 2018, the Company's operating results and cash flow.

II. THE BASIS FOR THE FORMATION OF AUDIT OPINIONS

We conducted the audit in accordance with the Chinese Auditing Standards for Certified Public Accountants. The "Responsibilities of Certified Public Accountants for Auditing of Financial Statements" in the audit report further illustrate our responsibilities under these guidelines. In accordance with the Code of Professional Ethics of Chinese Certified Public Accountants, we are independent of HEC and have performed other duties in respect of professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for the publication of the audit opinion.

III. KEY AUDIT MATTERS

The key audit matter is based on our professional judgment that is the most important issue in the current financial statements audit. The response to these matters is based on the audit of the financial statements as a whole and the

AUDITORS' REPORT (CONTINUED)

Key audit matters

Audit reaction

| | | |
|---|-----|---|
| | (5) | We adopted the sampling method to execute the following procedures on the estimated total cost of the project: a: Check the component items of the estimated total costs to the supporting documentations such as procurement contracts to identify whether the estimated total cost is missing or not; b: Assess the reasonableness of the estimated cost by discussing with the project engineers and reviewing relevant supporting documentations. |
| (II) Bad debt provision for accounts receivable | | |
| On December 31, 2018, the original value of notes receivable and accounts receivable and other receivables in the consolidated financial statement of The "Company" was 15,880,887,068.82 yuan, and the total provision of bad debts was 4,823,699,812.46 yuan. When there was objective evidence that the receivables are impaired, the management calculated the provision for individual impairment based on the difference between the present value of the estimated future cash flows and the carrying amount. For receivables without objective evidence of impairment, the management estimated by classifying them into many portfolios according to the characteristics of credit risk. Based on the actual loss rate of the portfolios of receivables with similar credit risk characteristics in previous years and the ageing analysis, the management determined the provision for bad debts associating with the current situation. As the amount was significant and the management had made material judgments in determining the impairment of the receivables, we identified the impairment of receivables as a key audit issue. | (1) | We evaluated and tested the internal control of management's review, assessment and determination of impairment of receivables, including control of identifying objective evidence of impairment and calculating impairment allowances. |
| | (2) | We selected the sample to check the accuracy of the aging analysis form of the receivables prepared by the management, and tested the automatic control of the information system related to the maintenance aging analysis table. |
| | (3) | We selected receivables with significant amount or high risk and tested the recoverability independently. In assessing the recoverability of receivables, we examined relevant supporting evidence, including post-acquisition receipts, customer credit history, operations and repayment ability, and external lawyers' confirmation reply letters. |
| | (4) | We assessed whether the management's method and calculation of classifying receivables into several portfolios for impairment assessment are proper by considering the actual amount and circumstances of actual bad debts in the history of similar receivables portfolios, combined with factors such as customer credit and market conditions. |

AUDITORS' REPORT (CONTINUED)

IV. OTHER INFORMATION

Harbin Electric Company Limited's management (hereinafter referred to as management) is responsible to other information which includes information covered in Harbin Electric's 2018 Annual Report, but does not include financial statements and our audit reports.

Our audit opinion on the financial statements does not cover any other information, and we do not publish any form of forensic conclusions on other information.

In conjunction with our audit of the financial statements, our responsibility is to read other information in the course of considering whether other information is materially inconsistent with the financial statements or what we have learned in the course of the audit or that there is a material misstatement.

Based on the work we have already done, we should report the fact if we determine that there is a material misstatement of the other information. In this respect, we have no need to report any matter.

V. MANAGEMENT AND GOVERNANCE'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of the Company shall be responsible for the preparation of financial statements in accordance with the Accounting Standards for Business Enterprises to enable them to be fairly reflected and to design, implement and maintain the necessary internal controls so that there is no material misstatement due to fraud or error in the financial statements.

In the preparation of the financial statements, the management is responsible for assessing the Company's continuing operating capacity, disclosing matters relating to continuing operations (if applicable) and applying the continuing operating assumptions unless the management plans to liquidate the Company, cease to operate or otherwise Realistic choice.

The governance is responsible for overseeing the financial reporting process of the Company.

VI. THE CPA'S RESPONSIBILITY OF AUDITING FINANCIAL STATEMENTS

Our objective is to obtain a reasonable assurance of the financial statements whether there is a material misstatement due to fraud or error and to issue an audit report containing audit opinion. Reasonable assurance is a high level of assurance, but there is no guarantee that audits carried out in accordance with the audit criteria will always be found in the presence of a material misstatement. Mistakes may be caused by fraud or error, and it is generally considered that the misstatement is significant if it is reasonably expected that the misstatement alone or aggregates may affect the economic decisions made by the users of the financial statements based on the financial statements.

AUDITORS' REPORT (CONTINUED)

In the course of carrying out the audit in accordance with the audit criteria, we used professional judgment and maintained professional suspicion. At the same time, we also perform the following tasks:

- (1) Identify and evaluate the risk of material misstatement of financial statements due to fraud or error; design and implement audit procedures to address these risks and obtain adequate and appropriate audit evidence as a basis for issuing audit opinions. As fraud may involve collusion, forgery, intentional omission, false statements may above internal controls, the risk of significant misstatement due to fraud is higher than the risk of not finding a significant misstatement due to an error.
- (2) Understand the internal controls related to auditing to design appropriate audit procedures, but not for the purpose of commenting on the effectiveness of internal controls.
- (3) Evaluate the appropriateness of accounting policies adopted by management and the rationality of accounting estimates and relevant disclosures.
- (4) Draw conclusions about the appropriateness of management's use of the going concern assumption. At the same time, according to the audit evidence obtained, it is possible to draw conclusions on whether there are material uncertainties on the events or circumstances that result in significant doubt about Harbin Electric Corporation's ability to continue as a going concern. If we conclude that there is material uncertainty, the auditing standards require us to bring the relevant disclosures in the financial statements to the users of the statements in the audit report; if the disclosure is not sufficient, we should publish non-unqualified opinions. Our conclusions are based on information available as of the date of the audit report. However, future events or circumstances may result in Harbin Electric Corporation's inability to continue to operate.
- (5) Evaluate the overall presentation, structure and content (including disclosure) of the financial statements and to assess whether the financial statements reflect the relevant transactions and events fairly.
- (6) Obtain sufficient and appropriate audit evidence of the financial information of the entity or business activity of the Company to express an opinion on the financial statements. We are responsible for directing, supervising and performing group audits. We take full responsibility for the audit opinion.

We communicate with the governance about planned audit scope, timing, and major audit findings, including communicating the internal control deficiencies identified in our audit.

We also provide the governance with a statement that we have complied with the ethical requirements relating to our independence and communicate with the governance on all relationships and other matters that may reasonably be considered to affect our independence, as well as the relevant precautions (if applicable).

AUDITORS' REPORT (CONTINUED)

From the matters passed through the governance, we determine which matters are most important to the audit of the current financial statements and thus constitute key audit matters. We describe these matters in our audit reports, unless the law prohibits public disclosure of these matters, or in rare cases, if it is reasonably expected that the negative consequences of communicating something in the audit report outweigh the benefits in the public interest, we determine this matter should not be communicated in the audit report.

BDO China Shu Lun Pan Certified Public Accountants LLP

China Certified Public Accountant: CHEN YONGBO
(Project partner)

China Certified Public Accountant: Chen Qingsong

Shanghai China
March 7, 2018

CONSOLIDATION BALANCE SHEET

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

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

CONSOLIDATION BALANCE SHEET (CONTINUED)

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

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

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION BALANCE SHEET (CONTINUED)

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

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

CONSOLIDATION BALANCE SHEET (CONTINUED)

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

| Items | Notes | December 31, 2018 | January 1, 2018 | December 31, 2017 |
|--------------------------------------|-------------|--------------------------|--------------------------|--------------------------|
| Non-current liabilities: | | | | |
| Long-term borrowings | VI (XXXI) | 300,000,000.00 | 200,000,000.00 | 200,000,000.00 |
| Bonds payable | | | | |
| including: preferred stocks | | | | |
| perpetual debts | | | | |
| Long-term payable | VI (XXXII) | 484,843,694.29 | 485,953,994.29 | 485,953,994.29 |
| Long-term employee benefits payable | VI (XXXIII) | 142,308,359.65 | 141,039,180.93 | 141,039,180.93 |
| Provisions | VI (XXXIV) | 785,172,986.49 | 631,358,782.54 | 631,358,782.54 |
| Deferred income | VI (XXXV) | 144,934,944.49 | 154,756,614.71 | 154,756,614.71 |
| Deferred tax liabilities | VI (XXI) | | 7,280,974.79 | 7,280,974.79 |
| Other non-current liabilities | | | | |
| Including: authorized reserve fund | | | | |
| Total non-current liabilities | | 1,857,259,984.92 | 1,620,389,547.26 | 1,620,389,547.26 |
| Total liabilities | | 40,232,952,077.63 | 48,695,941,394.36 | 48,695,941,394.36 |

CONSOLIDATION BALANCE SHEET (CONTINUED)

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

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

Corporate representative:

Chief Accountant:

Accounting Supervisor:

BALANCE SHEET

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

| Items | Notes | December 31, 2018 | January 1, 2018 | December 31, 2017 |
|--|---------|-------------------------|--------------------------|--------------------------|
| Current assets: | | | | |
| Cash and bank | | 1,390,590,030.37 | 3,481,580,580.67 | 3,481,580,580.67 |
| Settlement reserve | | | | |
| Due from banks and other financial institutions | | | | |
| Transactional financial assets | | | | - |
| Financial assets at fair value through profit and loss | | | | |
| Derivative assets | | | | |
| Notes receivable and accounts receivable | XV (I) | 936,507,072.39 | 924,818,564.15 | 1,101,257,645.38 |
| Prepayments | | 3,000,163,923.64 | 3,166,229,261.29 | 3,166,229,261.29 |
| Premium receivable | | | | |
| Reinsurance premium receivable | | | | |
| Reinsurance reserve receivable | | | | |
| Other receivables | XV (II) | 1,816,491,322.56 | 1,062,474,651.28 | 1,062,474,651.28 |
| Buying back the sale of financial assets | | | | |
| Inventories | | 1,233,925,646.06 | 1,530,848,812.74 | 1,530,848,812.74 |
| Including: raw materials | | | | |
| Merchandise inventories (finished goods) | | | | |
| Contract assets | | 149,143,326.49 | 176,439,081.23 | - |
| Held-for-sale assets | | | | |
| Current portion of non-current assets | | | | |
| Other current assets | | 864,094,371.93 | 524,584,052.35 | 524,584,052.35 |
| Total current assets | | 9,390,915,693.44 | 10,866,975,003.71 | 10,866,975,003.71 |

BALANCE SHEET (CONTINUED)

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

| Items | Notes | December 31, 2018 | January 1, 2018 | December 31, 2017 |
|--|----------|--------------------------|--------------------------|--------------------------|
| Non-current assets: | | | | |
| Loans and advances issued | | | | |
| Debt investments | | | | |
| Available-for-sale financial assets | | | | 12,000,000.00 |
| Other debt investments | | | | |
| Held-to-maturity investments | | | | |
| Long-term receivables | | | | |
| Long-term equity investments | XV (III) | 5,466,291,041.58 | 5,425,552,052.05 | 5,425,552,052.05 |
| Other equity instruments investments | | 677,358,772.26 | 12,000,000.00 | |
| Other non-current financial assets | | | | |
| Investment property | | 6,150,320.21 | 6,708,228.65 | 6,708,228.65 |
| Fixed assets | | 795,309,836.61 | 798,179,797.82 | 798,179,797.82 |
| Construction in progress | | 23,645,834.05 | 3,933,699.89 | 3,933,699.89 |
| productive biological assets | | | | |
| Oil and gas assets | | | | |
| Intangible assets | | 82,557,354.89 | 84,260,507.51 | 84,260,507.51 |
| Development disbursements | | 21,493,873.47 | 2,611,819.30 | 2,611,819.30 |
| Goodwill | | | | |
| Long-term deferred expenses | | | | |
| Deferred tax assets | | | | |
| Other non-current assets | | | | |
| Including: authorised reserve material | | | | |
| Total non-current assets | | 7,072,807,033.07 | 6,333,246,105.22 | 6,333,246,105.22 |
| Total assets | | 16,463,722,726.51 | 17,200,221,108.93 | 17,200,221,108.93 |

Corporate representative:

Chief Accountant:

Accounting Supervisor:

BALANCE SHEET (CONTINUED)

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

| Items | Notes | December 31, 2018 | January 1, 2018 | December 31, 2017 |
|---|-------|-------------------------|-------------------------|-------------------------|
| Current liabilities: | | | | |
| Short-term borrowings | | 1,148,730,000.00 | 398,730,000.00 | 398,730,000.00 |
| Borrowings from central bank | | | | |
| Deposits and placements from other financial institutions | | | | |
| Placement from banks and other financial institutions | | | | |
| Transactional financial liabilities | | | | |
| Financial liabilities at fair value through profit and loss | | | | |
| Derivative liabilities | | | | |
| Notes payable and Accounts payable | | 1,915,471,859.11 | 1,933,778,095.00 | 1,933,778,095.00 |
| Advances from customers | | | | 4,115,565,251.44 |
| Contract liabilities | | 3,933,048,846.51 | 4,115,565,251.44 | |
| Securities sold under agreement to repurchase | | | | |
| Fees and commissions payable | | | | |
| Employee benefits payable | | 5,159,724.21 | 62,564,298.43 | 62,564,298.43 |
| Including: Salary payable | | 61,601.84 | 52,061,601.84 | 52,061,601.84 |
| Welfare benefits payable | | | | |
| #Including: Employee bonus and welfare fund | | | | |
| Taxes and surcharges payable | | 6,488,694.44 | -146,164,679.47 | -146,164,679.47 |
| Including: taxes payable excluding surcharges | | 6,488,694.44 | -146,164,679.47 | -146,164,679.47 |
| Other payables | | 1,668,151,838.88 | 609,236,413.12 | 609,236,413.12 |
| Reinsurance amounts payable | | | | |
| Reserve of insurance contract | | | | |
| Securities brokering | | | | |
| Securities underwriting | | | | |
| Held-for-sale liabilities | | | | |
| Current portion of non-current liabilities | | 200,000,000.00 | 2,999,707,500.00 | 2,999,707,500.00 |
| Other current liabilities | | | | |
| Total current liabilities | | 8,877,050,963.15 | 9,973,416,878.52 | 9,973,416,878.52 |

BALANCE SHEET (CONTINUED)

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

| Items | Notes | December 31, 2018 | January 1, 2018 | December 31, 2017 |
|--------------------------------------|-------|-------------------------|--------------------------|--------------------------|
| Non-current liabilities: | | | | |
| Long-term borrowings | | 300,000,000.00 | 200,000,000.00 | 200,000,000.00 |
| Bonds payable | | | | |
| including: preferred stocks | | | | |
| perpetual debts | | | | |
| Long-term payable | | | | |
| Long-term employee benefits payable | | | | |
| Provisions | | 34,700,000.00 | 34,700,000.00 | 34,700,000.00 |
| Deferred income | | 41,455,972.22 | 42,831,672.22 | 42,831,672.22 |
| Deferred tax liabilities | | | | |
| Other non-current liabilities | | | | |
| Including: authorized reserve fund | | | | |
| Total non-current liabilities | | 376,155,972.22 | 277,531,672.22 | 277,531,672.22 |
| Total liabilities | | 9,253,206,935.37 | 10,250,948,550.74 | 10,250,948,550.74 |

BALANCE SHEET (CONTINUED)

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

| Items | Notes | December 31, 2018 | January 1, 2018 | December 31, 2017 |
|---|-------|--------------------------|--------------------------|--------------------------|
| Equity: | | | | |
| Paid-in capital (share capital) | | 1,706,523,000.00 | 1,706,523,000.00 | 1,706,523,000.00 |
| State-owned capital | | 1,030,952,000.00 | 1,030,952,000.00 | 1,030,952,000.00 |
| Including: state-owned legal person's capital | | 1,030,952,000.00 | 1,030,952,000.00 | 1,030,952,000.00 |
| Collectively owned capital | | | | |
| Private capital | | | | |
| Including: individual capital | | | | |
| Foreign capital | | 675,571,000.00 | 675,571,000.00 | 675,571,000.00 |
| #Less: payback capital | | | | |
| Paid-in capital (share capital)-net value | | 1,706,523,000.00 | 1,706,523,000.00 | 1,706,523,000.00 |
| Other equity instruments | | | | |
| Including: Preferred stock | | | | |
| Perpetual debt | | | | |
| Capital reserve | | 3,625,820,100.48 | 3,628,404,836.53 | 3,628,404,836.53 |
| Less: treasury shares | | | | |
| Other comprehensive income | | 63,358,777.91 | | |
| Including: Currency translation reserve | | | | |
| Specialized reserve | | | | |
| Surplus reserve | | 645,909,005.07 | 623,302,301.46 | 623,302,301.46 |
| Including: statutory surplus reserve | | 645,909,005.07 | 623,302,301.46 | 623,302,301.46 |
| Other surplus reserve | | | | |
| #Reserve fund | | | | |
| #Corporate development fund | | | | |
| #Return of investment | | | | |
| General risk reserve | | | | |
| Retained earnings | | 1,168,904,907.68 | 991,042,420.20 | 991,042,420.20 |
| Total owner's equity | | 7,210,515,791.14 | 6,949,272,558.19 | 6,949,272,558.19 |
| Total liabilities and owner's equity | | 16,463,722,726.51 | 17,200,221,108.93 | 17,200,221,108.93 |

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION INCOME STATEMENTS

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

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

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

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

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

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

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

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

INCOME STATEMENTS

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

INCOME STATEMENTS (CONTINUED)

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

| Items | Notes | Current Period | Prior Period |
|---|-------|----------------|-----------------|
| 3. Operating profits ("-" for loss) | | 229,985,161.41 | -144,273,916.38 |
| Add: non-operating income | | 1,667,405.55 | 41,215.28 |
| Including: Government grants | | | 6,015.28 |
| Gain from debt restructuring | | | |
| Less: non-operating expenses | | 5,585,530.87 | 34,909,298.85 |
| Including: Loss on debt restructuring | | | |
| 4. Profit before tax ("-" for loss) | | 226,067,036.09 | -179,141,999.95 |
| Less: income tax | | | |
| 5. Net profit ("-" for net loss) | | 226,067,036.09 | -179,141,999.95 |
| (1) Continuous operating profit and loss | | 226,067,036.09 | -179,141,999.95 |
| (2) Termination of the business profit and loss | | | |
| 6. Other comprehensive income after tax | | 63,358,777.91 | |
| (1) Comprehensive income not to be reclassified as profit or loss | | 63,358,777.91 | |
| 1. Remeasure the change in net liabilities or net assets of defined beneficiary plans | | | |
| 2. Shares in other comprehensive income that the investee cannot reclassify into profit or loss under the equity method | | | |
| 3. Net gain on equity instruments at fair value through other comprehensive income | | 63,358,777.91 | |
| 4. Fair value changes in enterprise's own credit risk | | | |
| 5. Others | | | |
| (2) Other comprehensive income to be reclassified as profit or loss | | | |
| 1. Share of other comprehensive income of an associate | | | |
| 2. Net gain on debt instruments at fair value through other comprehensive income | | | |
| 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 | | | |
| 8. Currency translation reserve | | | |
| 9. Other profit or loss to be reclassified | | | |

INCOME STATEMENTS (CONTINUED)

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

| Items | Notes | Current Period | Prior Period |
|--------------------------------------|-------|----------------|-----------------|
| 7. Total comprehensive income | | 289,425,814.00 | -179,141,999.95 |
| 8. Earnings per share: | | | |
| (1) Basic earnings per share | | | |
| (2) Diluted earnings per share | | | |

Corporate representative:

Chief Accountant:

Accounting Supervisor

CONSOLIDATION CASH FLOW STATEMENT

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

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

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

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

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

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

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

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

Corporate representative:

Chief Accountant:

Accounting Supervisor:

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 | | 2,284,435,082.17 | 2,369,086,908.66 |
| Net increase in deposits and placements from financial institutions | | | |
| Net increase in due to central banks | | | |
| Net increase in placement from 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 | | | |
| Net increase of placement from banks and other financial institutions | | | |
| Net increase in repurchasing | | | |
| Taxes and surcharges refunds | | | |
| Other cash receipts related to operating activities | | 110,126,927.74 | 672,088,711.74 |
| Total cash inflows from operating activities | | 2,394,562,009.91 | 3,041,175,620.40 |
| Cash paid for goods and services | | 2,234,749,819.07 | 1,986,568,134.41 |
| Net increase in loans and advances | | | |
| Net increase in deposits with central banks and other financial institutions | | | |
| Cash paid for claim settlements on original insurance contracts | | | |
| Cash paid for interest, fees and commissions | | | |
| Cash paid for policy dividends | | | |
| Cash paid to and for employees | | 116,912,538.19 | 92,964,309.20 |
| Taxes and surcharges cash payments | | 36,707,033.42 | 121,417,152.80 |
| Other cash payments related to operating activities | | 164,676,925.99 | 800,306,047.57 |
| Total cash outflows from operating activities | | 2,553,046,316.67 | 3,001,255,643.98 |
| Net cash flows from operating activities | | -158,484,306.76 | 39,919,976.42 |

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 | | | 800,000,000.00 |
| Cash received from investment income | | 386,468,386.17 | 268,448,263.88 |
| Net cash received from disposal of fixed assets,intangible assets and other long-term assets | | | |
| Net cash received from disposal of subsidiaries and other business units | | | |
| Other cash receipts related to investing activities | | 15,183,675.00 | |
| Total cash inflows from investing activities | | 401,652,061.17 | 1,068,448,263.88 |
| Cash paid for fixed assets,intangible assets and other long-term assets | | 1,050,000.00 | 33,481,914.02 |
| Cash payments for investments | | 1,157,979,994.35 | 600,000,000.00 |
| Net increase in pledged loans | | | |
| Net cash paid for acquiring subsidiaries and other business units | | | |
| Other cash payments related to investing activities | | | |
| Total cash outflows from investing activities | | 1,159,029,994.35 | 633,481,914.02 |
| Net cash flows from investing activities | | -757,377,933.18 | 434,966,349.86 |

CASH FLOW STATEMENT (CONTINUED)

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

| Items | Notes | Current Period | Prior Period |
|--|-------|--------------------------|-------------------------|
| 3. Cash flows from financing activities: | | | |
| Cash received from investments by others | | | 1,269,999,456.00 |
| Cash received from borrowings | | 2,050,000,000.00 | 200,000,000.00 |
| Cash received from bond issues | | | |
| Other cash receipts related to other financing activities | | | |
| Total cash inflows from financing activities | | 2,050,000,000.00 | 1,469,999,456.00 |
| Cash repayments for debts | | 3,147,157,350.00 | |
| Cash payments for distribution of dividends, profit and interest expenses | | 77,970,960.36 | 41,302,273.53 |
| Other cash payments related to financing activities | | | |
| Total cash outflows from financing activities | | 3,225,128,310.36 | 41,302,273.53 |
| Net cash flows from financing activities | | -1,175,128,310.36 | 1,428,697,182.47 |
| 4. Effect of foreign exchange rate changes on cash and cash equivalents | | | 502,287.23 |
| 5. Net increase in cash and cash equivalents | | -2,090,990,550.30 | 1,904,085,795.98 |
| Add: beginning balance of cash and cash equivalents | | 3,481,580,580.67 | 1,577,494,784.69 |
| 6. Ending balance of cash and cash equivalents | | 1,390,590,030.37 | 3,481,580,580.67 |

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY

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

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

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

| Items | Prior period | | | | | | | | | | | | |
|---|---------------------------------------|-----------------|-----------------|--------------------------|----------------------------|--|-----------------|------------------------|-------------------|--------|-------------------|--------------------|----------------------|
| | Equity attributable to parent company | | | | | Equity attributable to non-controlling interests | | | | | | | |
| | Paid-in capital | Preferred stock | Perpetual bonds | Other equity instruments | Other comprehensive income | Specialized reserve | Surplus reserve | General risk provision | Retained earnings | Others | Subtotal | Minority interests | Total owner's equity |
| 1. Ending balance of last year | 1,376,806,000.00 | | | | 6,938,794.70 | 15,801,148.88 | 766,529,945.66 | | 8,496,686,529.09 | | 13,433,083,309.54 | 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 | | | | 6,938,794.70 | 15,801,148.88 | 766,529,945.66 | | 8,496,686,529.09 | | 13,433,083,309.54 | 1,209,321,445.94 | 14,642,414,755.48 |
| 3. Increase/decrease for current year ** | | | | | | | | | | | | | |
| for decrease | | | | | | | | | | | | | |
| (1) Total comprehensive income | 329,717,000.00 | | | | 25,453,003.92 | 3,576,276.08 | | | 152,922,560.00 | | 1,437,657,591.76 | 62,079,331.38 | 1,499,736,923.14 |
| (2) Owner's contributions and withdrawals of capital | 329,717,000.00 | | | | 25,453,003.92 | | | | 194,226,740.00 | | 219,679,743.92 | 69,179,091.35 | 288,858,835.27 |
| 1. Common stock contributed by owners | 329,717,000.00 | | | | 925,988,749.76 | | | | | | 1,255,705,749.76 | | 1,255,705,749.76 |
| 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 | | | | | | 3,576,276.08 | | | | | 3,576,276.08 | 447,932.26 | 4,024,210.34 |
| 2. Utilization of specialized reserve | | | | | | 24,255,657.57 | | | | | 24,255,657.57 | 3,829,501.55 | 28,085,159.12 |
| (4) Profits distribution | | | | | | | | | | | | | |
| 1. Appropriation of surplus reserve including statutory surplus reserve | | | | | | | | | | | | | |
| Discretionary surplus reserve | | | | | | | | | | | | | |
| Reserve fund | | | | | | | | | | | | | |
| Corporate development fund | | | | | | | | | | | | | |
| Return of investment | | | | | | | | | | | | | |
| Accrual of general risk reserve | | | | | | | | | | | | | |
| Distribution to owner/stakeholder | | | | | | | | | | | | | |
| Others | | | | | | | | | | | | | |
| 2. Appropriation of surplus reserve | | | | | | | | | | | | | |
| 1. Appropriation of surplus reserve including statutory surplus reserve | | | | | | | | | | | | | |
| Discretionary surplus reserve | | | | | | | | | | | | | |
| Reserve fund | | | | | | | | | | | | | |
| Corporate development fund | | | | | | | | | | | | | |
| Return of investment | | | | | | | | | | | | | |
| Accrual of general risk reserve | | | | | | | | | | | | | |
| Distribution to owner/stakeholder | | | | | | | | | | | | | |
| 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 | | | | 18,514,203.22 | 19,377,426.96 | 766,529,945.66 | | 8,649,609,089.09 | | 14,870,750,901.30 | 1,271,400,777.32 | 16,142,151,678.62 |

Corporate representative:

Chief Accountant:

Accounting Supervisor:

STATEMENTS OF CHANGES IN EQUITY

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

| Items | Current period | | | | | | | | | | | | |
|--|------------------|-----------------|-----------------|--------------------------|------------------|-----------------------|----------------------------|---------------------|-----------------|-------------------------|-------------------|--------|----------------------|
| | Paid-in capital | Preferred stock | Perpetual bonds | Other equity instruments | Capital reserve | Less: treasury shares | Other comprehensive income | Specialized reserve | Surplus reserve | ΔGeneral risk provision | Retained earnings | Others | Total owner's equity |
| 1. Ending balance of last year | 1,706,523,000.00 | | | | 3,628,404,833.53 | | | | 623,302,201.46 | | 991,042,420.20 | | 6,949,272,558.19 |
| 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 | | | | 3,628,404,833.53 | | | | 623,302,201.46 | | 991,042,420.20 | | 6,949,272,558.19 |
| 3. Increase/decrease for current year "+" for decrease | | | | | | | | | | | | | |
| (1) Total comprehensive income | | | | | | | | | | | | | |
| (2) Owner's contributions and withdrawals of capital | | | | | | | | | | | | | |
| 1. Common stock contributed by owners | | | | | -2,384,736.05 | | 63,358,777.91 | | 22,606,703.61 | | 177,862,487.48 | | 261,243,232.95 |
| 2. Capital contributed by other equity instruments holders | | | | | -2,384,736.05 | | 63,358,777.91 | | 22,606,703.61 | | 226,867,036.09 | | 289,425,814.00 |
| 3. Share-based payment recorded in owner's equity | | | | | | | | | | | | | |
| 4. Others | | | | | -2,384,736.05 | | | | | | | | -2,384,736.05 |
| (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 | | | | 3,625,820,100.48 | | 63,358,777.91 | | 645,999,005.07 | | 1,188,904,907.68 | | 7,210,515,791.14 |

Corporate representative:

Chief Accountant:

Accounting Supervisor:

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

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

| Items | Prior 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 | Others | Total owner's equity |
| 1. Ending balance of last year | 1,376,806,000.00 | | | 2,888,122,380.53 | | | 623,302,301.46 | 1,211,488,800.15 | | | | 5,899,719,282.14 |
| 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 | | | 2,888,122,380.53 | | | 623,302,301.46 | 1,211,488,800.15 | | | | 5,899,719,282.14 |
| 3. Increase/decrease for current year ** for decrease | | | | | | | | | | | | |
| (1) Total comprehensive income | 329,717,000.00 | | | 940,282,456.00 | | | | -220,446,179.95 | | | | 1,049,553,276.05 |
| (2) Owner's contributions and withdrawals of capital | 329,717,000.00 | | | 940,282,456.00 | | | | -179,141,899.95 | | | | -179,141,899.95 |
| 1. Common stock contributed by owners | 329,717,000.00 | | | 940,282,456.00 | | | | | | | | 1,289,999,456.00 |
| 2. Capital contributed by other equity instruments holders | | | | | | | | | | | | 1,289,999,456.00 |
| 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 | | | 3,828,404,836.53 | | | 623,302,301.46 | 991,042,400.20 | | | | 6,949,272,558.19 |

Corporate representative:

Chief Accountant:

Accounting Supervisor:

NOTES TO FINANCIAL STATEMENTS

(In addition to the special note, the unit of amount is CNY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

I. INFORMATION ABOUT THE COMPANY (CONTINUED)

(I) Company profile (Continued)

Registration Number of the legal enterprise business license of the Company: 91230100127575573H

Legal representative: Si Ze-fu

Address: No. 1399 Chuangxin Road, Songbei District, Harbin

Parent and ultimate controller of the Company: Harbin Electric Corporation

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

Major business segments are: Manufacturing of large scale thermal power, hydro power, nuclear power and its ancillary equipment, turn-key construction of power station projects, research and development, design and manufacturing of major products such as power equipment of ships and electric power equipment etc.

The financial statements were approved by the board of directors on March 7, 2019.

(II) Scope of consolidated financial statements

As of December 31, 2018, the company scope of consolidated financial statements had the company are as follows:

Name of subsidiaries
Harbin Boiler Company Limited
Harbin Electric Machinery Co., Ltd.
Harbin Steam Turbine Works Co., Ltd.
Harbin Electric International Engineering Co., Ltd.
Harbin Power Equipment National Engineering Research Centre Co., Ltd
Harbin Power Technology and Trade Co., Ltd.
Harbin Electric Corporation (QHD) Heavy Equipment Company Limited
Harbin Electric Power Equipment Co., Ltd.
Harbin Power Group Harbin Power Station Valve Co., Ltd.
Harbin Electric Corporation Finance Company Limited
Chengdu Sanliya Technology Company
Harbin Electric (H.E) Corporation
Harbin Electric Group Shanxi Environmental Protection Engineering Co., Ltd.

For the details of the scope and changes of the consolidated financial statements of the current period, please refer to "VII. Changes in the scope of consolidation" and "VIII. Rights in other entities" in this note.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

II. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

(I) Basis of preparation

Based on going concern and actual transactions and events, the Company prepared financial statements in accordance with the basic and specific standards of the Accounting Standards for Business Enterprises, 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, and "Hong Kong Companies Ordinance" of the Hong Kong Stock Exchange prepare financial statements.

(II) Going concern

The company has continuous operation capability for at least 12 months from the end of the reporting period, and has no major issues affecting its ability to continue to operate.

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Company and its subsidiaries have formulated certain specific accounting policies and accounting estimates for transactions and events such as revenue recognition in accordance with the actual production and operation characteristics and in accordance with the relevant accounting standards. For details, see Note III (XXVII) "Revenue" description.

(I) Statement of compliance with corporate accounting standards

The financial statements prepared by the company are in compliance with the requirements of the Accounting Standards for Business Enterprises, and truly and completely reflect the financial status, operating results, cash flow and other relevant information of the company and its subsidiaries.

(II) Accounting period

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

(III) Operating Cycle

The Group's operating cycle is 12 months.

(IV) Reporting currency

The reporting currency of the Company is Renminbi ("CNY").

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(V) Accounting treatments for business combinations involving entities under and not under common control

Business combinations involving entities under common control: The assets and liabilities acquired by the Group in business combination shall be measured at the carrying value of the assets, liabilities of the acquire (including goodwill incurred in the acquisition of the acquire by ultimate controlling party) in the financial statements of the ultimate controlling party at the date of combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or total nominal value of the issued shares) is adjusted to capital premium in capital reserve.

Business combinations involving entities not under common control: The assets paid and liabilities incurred or committed as a consideration of business combination by the Company were measured at fair value on the date of acquisition and the difference between the fair value and its carrying value shall be charged to the profit or loss for the period. Where the cost of combination is higher than the fair value of the identifiable net assets acquired from the acquire in business combination, the Company shall recognize such difference as goodwill; where the cost of combination is less than the fair value of the identifiable net assets acquired from the acquire in business combination, such difference shall be charged to the profit or loss for the current period.

The agency fee such as audit, legal service and evaluation consultation and other fees which are directly related to the above matters shall be recognized as the profit or loss in the period when the costs are incurred; the transaction costs for the equity securities issued for corporate combination shall be written-off against equity.

(VI) Preparation of consolidated financial statements

The consolidated financial statements are prepared by the Company based on the financial statements of the Company and its subsidiaries and in accordance with the other relevant information. In preparation of the Company's consolidated financial statements, the Company will treat the enterprise group as a single accounting entity. The Group's overall financial condition, operating results and cash flow are reflected based on the relevant accounting standards, measurement and presentation requirements and in accordance with the unified accounting policy.

The subsidiaries that are within the scope of the consolidation shall have the same accounting policies and the accounting periods with those of the Company. In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company. For subsidiaries acquired from a business combination involving entities not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets on the date of acquisition. For subsidiaries acquired from a business combination involving entities under common control, the individual financial statements of the subsidiaries are adjusted based on the carrying value of the assets, liabilities of the acquire (including goodwill incurred in the acquisition of the acquire by ultimate controlling party) in the financial statements of the ultimate controlling party.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements (Continued)

The owner's equity, the net profit or loss and the comprehensive income attributable to minority shareholders of a subsidiary of the current period are presented separately under the owners' equity in the consolidated balance sheet, the net profit and the total comprehensive income in the consolidated income statement respectively. Where losses attributable to the minority shareholders of a subsidiary exceed the minority shareholders' interest entitled in the shareholders' equity of the subsidiary at the beginning of the period, the excess is allocated against the minority shareholders interest.

(1) *Acquisition of subsidiaries or business*

For acquisition of subsidiaries or business due to business combination involving entities under common control during the reporting period, the opening balance of the consolidated balance sheet shall be adjusted; the revenue, expense and profit of such subsidiaries or business from the beginning to the end of the reporting period when the merger occurs are included in the consolidated income statement; the cash flows of such subsidiaries or business from the beginning to the end of the reporting period when the merger occurs are included in the consolidated cash flow statement, and the comparative figures of the financial statements should be adjusted simultaneously as if the consolidated reporting entity had been in existence since the beginning of the control by the ultimate controlling party.

If it is possible to control the investee under the same control due to additional investment, etc., the parties participating in the merger will be adjusted according to the current state when the ultimate controlling party begins to control. The equity investment held before gaining the control of the combined

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements (Continued)

(2) Disposal of subsidiaries or business (Continued)

Step-by-step disposal of subsidiaries

When disposal of equity interests of subsidiaries through multiple transaction until control is lost, generally transactions in stages are treatment as a package deal in accounting if the transaction terms, conditions, and economic impact of disposal of the subsidiary's equity interests comply with one or more of the following:

- i. These transactions are achieved at the same time or the mutual effects on each other are considered.
- ii. A complete set of commercial results can be achieved with reference to the series of transactions as a whole.
- iii. Achieving a transaction depends on at least achieving of one of the other transaction.
- iv. One transaction recognized separately is not economical, but it is economical when considered together with other transactions.

If losing control of a subsidiary in disposal of equity interests through multiple transactions is recognized as a package deals, these transactions shall be in accounting treated as loss control of a subsidiary in disposal of equity interests achieved. However, the differences between price on each disposal and disposal of investment on the subsidiary's net assets shall be recognized in other comprehensive income in the consolidated financial statements, and included in profit or loss for the period when the control is lost.

If all transactions in disposal of equity interests of subsidiaries until losing control are not a package deals, accounting treatment for partial disposal of equity investments of subsidiary without losing control shall be applied before control is lost. When control is lost, general accounting treatment for disposal of a subsidiary shall be used.

(3) Acquisition of minority stake of subsidiaries

The Company shall adjust the share premium in the capital reserve of the consolidated balance sheet with respect to any difference between the long-term equity investment arising from the purchase of minority interest and the net assets attributing to the parent company continuously calculated on the basis of the newly increased share proportion as of the acquisition date (or date of combination) or, adjust the retained earnings in case the share premium in the capital reserve is insufficient for write-down.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements (Continued)

(4) *Partial disposal of equity investment in subsidiaries without losing control*

The difference between disposal consideration of long-term equity investment in subsidiaries partially disposed by the Group without losing control and the share of net assets calculated from the date of acquisition or combination date shall be adjusted to share premium in the capital reserve in the consolidated balance sheet. Adjustments shall be made to retained earnings in the event that the share premiums in the capital reserves are not sufficient.

(VII) Classification of joint venture arrangements and accounting treatment

Joint venture arrangements are divided into joint operations and joint ventures.

When the Company is a joint operator of joint arrangement, which means the Company have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Company recognizes the following items in relation to its interest in a joint operation, and method for them in accordance with relevant accounting standards:

- (1) The Company's solely-held assets, and the Company's share of any assets held jointly;
- (2) The Company's solely-assumed liabilities, and the Company's share of any liabilities incurred jointly;
- (3) The Company's revenue from the sale of its share of the output arising from the joint operation;
- (4) Recognize the income generated by the joint operation due to the sale of the output according to the company's share;
- (5) Confirm the expenses incurred separately and the expenses incurred in the joint operation according to the company's share.

For the accounting policy of the company's investment in joint ventures, see Note "III. (15) Long-term equity investment".

(VIII) Determination of cash and cash equivalents

In preparing the cash flow statement, the cash on hand and deposits that are available for payment at any time of the Company are recognized as cash. The short-term (due within 3 months of the date of purchase) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of value change are recognized as cash equivalents.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IX) Foreign currency transactions and translation of foreign currency financial statements

1. *Foreign currency transactions*

The foreign currency business is converted into CNY for the foreign currency amount using the exchange rate intermediate price announced by the State Administration of Foreign Exchange on the first working day of the month of the transaction.

The balance of foreign currency monetary items is converted at the exchange rate intermediate exchange rate announced by the State Administration of Foreign Exchange on the balance sheet date. The resulting exchange differences are excluding exchange differences arising from foreign currency special borrowings related to the acquisition and construction of assets eligible for capitalization. Except for the principle of capitalization of borrowing costs, they are included in the current profit and loss.

2. *Conversion of foreign currency financial statements*

All assets and liabilities items in balance sheet are converted based on central parity rate announced by the State Administration of Foreign Exchange on the balance sheet date; Owners' equity items except "undistributed profit" items, Other items are converted using the central parity rate announced by the State Administration of Foreign Exchange on the first working day of the month when the transaction occurs. The income and expense items in the income statement shall be converted at the central parity rate announced by the State Administration of Foreign Exchange on the first working day of the month when the transaction occurs.

For disposal of overseas operation, the conversion difference as stated in the foreign currency financial statements relating to overseas operation, is accounted for in the profit and loss account in the current period from owners' equity items. If part of the overseas operations is disposed of, the difference in the foreign currency financial statements of the disposal part shall be converted based on the proportion of the disposal and transferred to the profit or loss of the current period of disposal.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments

Financial instruments include financial assets, financial liabilities and equity instruments.

1. *Classification of the financial instruments*

The scope of the merger that apply the guidelines for the application of new financial instruments include: Harbin Electric Co., Ltd. and all its subsidiaries; according to the business model of the company's management of financial assets and the contractual cash flow characteristics of financial assets, financial assets are classified at the initial recognition as: Financial assets measured at amortized cost, financial assets measured at fair value through profit or loss, and other financial assets that are measured at fair value through profit or loss. For non-trading equity instrument investments, the Company determines at the initial recognition whether it is designated as a financial asset (equity instrument) that is measured at fair value and whose changes are included in other comprehensive income.

Financial liabilities are classified into financial liabilities at fair value through profit or loss and financial liabilities measured at amortized cost.

2. *Confirmation basis and measurement method of financial instruments*

Financial assets measured at amortized cost

Financial assets measured at amortized cost include notes receivable and accounts receivable, other receivables, long-term receivables, and debt investment, which are initially measured at fair value, and related transaction costs are included in the initial recognition amount; Accounts receivable that do not contain significant financing components and accounts receivable that the Company has decided not to consider for a financing component of no more than one year are initially measured at the contractual transaction price.

Interest calculated by the effective interest method during the period of holding is included in the current profit and loss.

When recovering or disposing, the difference between the price obtained and the book value of the financial asset is included in the current profit and loss.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (Continued)

2. Confirmation basis and measurement method of financial instruments (Continued)

Financial assets measured at fair value and whose changes are included in other comprehensive income (debt instruments)

Financial assets (debt instruments) that are measured at fair value and whose changes are included in other comprehensive income include other debt investments, which are initially measured at fair value, and related transaction costs are included in the initial recognition amount. The financial assets are subsequently measured at fair value. Changes in fair value are included in other comprehensive income except for interest, impairment losses or gains and exchange gains and losses calculated using the effective interest method.

When the recognition is terminated, the accumulated gain or loss previously recognized in other comprehensive income is transferred from other comprehensive income and recognized in profit or loss.

Financial assets measured at fair value and whose changes are included in other comprehensive income (equity instruments)

Financial assets measured by fair value and whose changes are included in other comprehensive income (equity instruments), including other equity instruments, are initially measured at fair value, and related transaction costs are included in the initial recognition amount. The financial assets are subsequently measured at fair value, and changes in fair value are included in other comprehensive income. The dividends obtained are included in the current profits and losses.

When the recognition is terminated, the accumulated gain or loss previously included in other comprehensive income is transferred from other comprehensive income and included in retained earnings.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss include held-for-trading financial assets, derivative financial assets and other non-current financial assets, which are initially measured at fair value. The financial assets are subsequently measured at fair value, and changes in fair value are recognized in profit or loss.

When the recognition is terminated, the difference between the fair value and the initially recorded amount is recognized as investment income, and the gains and losses from changes in fair value are adjusted.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (Continued)

2. Confirmation basis and measurement method of financial instruments (Continued)

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss, including held-for-trading financial liabilities, derivative financial liabilities, etc., are initially measured at fair value, and related transaction expense is recognized in profit or loss. The financial liabilities are subsequently measured at fair value, and changes in fair value are recognised in profit or loss.

When the recognition is terminated, the difference between the fair value and the initially recorded amount is recognized as investment income, and the gains and losses from changes in fair value are adjusted.

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost include short-term borrowings, bills payable and accounts payable, other payables, long-term borrowings, bonds payable, long-term payables, initially measured at fair value, and related transaction costs are included in the initial recognition amount.

Interest calculated by the effective interest method during the period of holding is included in the current profit and loss.

When the derecognition is terminated, the difference between the consideration paid and the carrying amount of the financial liability is recognized in profit or loss.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (Continued)

3. Confirmation conditions and measurement methods for financial asset transfer

When a company transfers a financial asset, if it has transferred almost all the risks and rewards of ownership of the financial asset to the transferee, the financial asset is derecognised; If almost all risks and rewards of ownership of a financial asset are retained, the recognition of the financial asset is not terminated.

When judging whether the transfer of financial assets satisfies the conditions for derecognition of the above-mentioned financial assets, the principle of substance over form is adopted. The company divides the transfer of financial assets into the overall transfer and partial transfer of financial assets. If the overall transfer of financial assets meets the conditions for derecognition, the difference between the following two amounts is included in the current profit and loss:

- (1) The book value of the transferred financial assets;
- (2) The consideration received as a result of the transfer is the sum of the cumulative change in fair value (which is the case in which the transferred financial asset is an available-for-sale financial asset).

If the partial transfer of financial assets meets the conditions for derecognition, the book value of the transferred financial assets as a whole is apportioned between the derecognised portion and the unrecognized portion at their respective fair values, and the difference between the following two amounts is included in the current profit and loss:

- (1) The book value of the derecognition part;
- (2) The sum of the consideration for the derecognition portion and the amount of the derecognised portion of the cumulative amount of changes in fair value that is directly recognised in owners' equity (when the transferred financial asset is an available-for-sale financial asset).

If the transfer of financial assets does not meet the conditions for derecognition, the financial assets continue to be recognized and the consideration received is recognized as a financial liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (Continued)

4. *Conditions for termination of financial liabilities*

If all or part of the current obligations of a financial liability have been discharged, the financial liability or part of it is derecognised; If the company signs an agreement with the creditor to replace the existing financial liabilities with new financial liabilities, and the contractual terms of the new financial liabilities and the existing financial liabilities are substantially different, the existing financial liabilities are derecognised and the new financial liabilities are recognized.

If all or part of the contract terms of the original financial liabilities are substantially amended, the original financial liabilities will be derecognized in full or in part, and the financial liabilities whose terms have been amended shall be recognized as a new financial liability.

When financial liabilities is derecognized in full or in part, the difference between the carrying amount of the financial liabilities derecognized and the consideration paid (including transferred non-cash assets or new financial liability) is recognized in profit or loss for the current period.

Where the Company repurchases part of its financial liabilities, the carrying amount of such financial liabilities will be allocated according to the relative fair value between the continued recognized part and derecognized part on the repurchase date. The difference between the carrying amount of the financial liabilities derecognized and the consideration paid (including transferred non-cash assets or new financial liability) is recognized in profit or loss for the current period.

5. *Method of determining the fair values of financial assets and liabilities*

A financial instrument with an active market that determines its fair value by quoted prices in an active market. Financial instruments that do not exist in an active market use valuation techniques to determine their fair value. At the time of valuation, the Company uses valuation techniques that are applicable in the current circumstances and that are sufficiently supported by data and other information, inputs that match the characteristics of the asset or liability considered by the market participants in the transaction of the relevant asset or liability, and prioritizes the use of relevant observable inputs. Unobservable inputs are used only if the relevant observable inputs are not available or are not practicable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (Continued)

6. *Testing methodology and accounting method for impairment of financial assets (excluding accounts receivable)*

The Group shall assess the carrying amount of financial assets other than those at fair value through profit or loss at the balance sheet date. If there is objective evidence that the financial asset is impaired, the Company shall make provision of any impairment.

The Company considers all reasonable and evidenced information, including forward-looking information, to estimate the expected credit losses of financial assets measured at amortized cost and financial assets (debt instruments) measured at fair value through other comprehensive income, either individually or in combination. The measurement of expected credit losses depends on whether the financial assets have increased significantly since the initial recognition.

The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Group at the original effective interest rate, that is, the present value of all cash shortages. Among them, financial assets that have been credit-depreciated by the Group or purchased by the Group shall be discounted according to the actual interest rate adjusted by the financial assets.

The Group's measurement of expected credit losses reflects the following elements:

- (1) an unbiased probability weighted average amount determined by evaluating a range of possible outcomes;
- (2) the time value of money;
- (3) Reasonable and evidence-based information on past events, current conditions, and future economic conditions that are not available at the balance sheet date without unnecessary additional costs or effort.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (Continued)

6. *Testing methodology and accounting method for impairment of financial assets (excluding accounts receivable) (Continued)*

For financial instruments included in the measurement of expected credit losses, the Group assesses whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition. The “three-phase” impairment model is used to measure the loss provision and confirm the expected credit losses:

- Phase 1: If the credit risk of the financial instrument has not increased significantly since the initial recognition, the Group measures its loss provision based on the amount equivalent to the expected credit loss of the financial instrument in the next 12 months;
- Phase 2: If the credit risk of the financial instrument has increased significantly since the initial recognition, but it is not regarded as the credit impairment that has occurred, the Group measures its loss provision based on the amount equivalent to the expected credit loss for the entire duration of the financial instrument;
- Phase 3:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(X) Financial instruments (Continued)

7. *Offset of financial assets and financial liabilities*

When the legal rights have the power to offset the creditor's rights and debts and the statutory rights are currently enforceable, and both parties to the transaction are prepared to settle on a net basis, or to settle assets and liabilities at the same time, the net amount of financial assets and liabilities after offset is presented in the balance sheet.

8. *Distinction between financial liabilities and equity instruments and related treatment*

An equity instrument is a contract that proves that a company has a residual interest in an asset after deducting all liabilities. If the company cannot unconditionally avoid delivering a contractual obligation by delivering cash or other financial assets, the contractual obligation is a financial liability.

Financial instruments are financial liabilities, and related interest, dividends, gains, losses, and gains or losses arising from redemption or refinancing shall be included in the current profits and losses.

When financial instruments are equity instruments, when they are issued, repurchased, sold or canceled, the issuer shall deal with the change of equity, and shall not recognize the change in the fair value of the equity instrument. The issuer's allocation to the holder of the equity instrument shall be treated as profit distribution.

(XI) Provision for bad debt of the accounts receivable

Receivables include accounts receivable, other receivables, etc. The accounts receivable formed by the Company's external sales of goods or provision of labor services shall be deemed as the initial recognition amount based on the fair value of the contract or agreement receivable from the purchaser. The receivables are presented using the effective interest method and the amortized cost less the provision for bad debts.

Enterprises involved in the provision of bad debts for the applicable credit loss model within the scope of the merger include: Harbin Electric Co., Ltd. and all its subsidiaries.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Provision for bad debt of the accounts receivable (Continued)

(1) Accounts receivable

For accounts receivable, whether it contains significant financing components, the company always measures its loss reserves in accordance with the amount of expected credit losses for the entire life period, and the increase or reversal of the loss provision resulting therefrom is included in the current profit and loss as an impairment loss or gain.

The Company combines the accounts receivable according to similar credit risk characteristics (aging) and estimates the proportion of the provision for bad debts of the accounts receivable based on all reasonable and evidenced information, including forward-looking information.

| Aging | Accounts receivable accrual ratio (%) |
|----------------------------------|--|
| Within 1 year (including 1 year) | 0-5 |
| 1-2 years | 5-25 |
| 2-3 years | 50 |
| 3-4 years | 80 |
| 4-5 years | 80 |
| Over 5 years | 100 |

If there is objective evidence that a receivable has been credit impaired, the Company makes provision for bad debts and confirms the expected credit losses for the accounts receivable.

The Company's accounts receivable with provision for bad debts and confirmation of expected credit losses are disclosed separately according to the significant amount of individual items or the insignificant amount of individual items.

l) *The standard of receivables with a single significant amount:*

The Company recognizes accounts receivable with an amount of CNY30 million (including CNY30 million) as receivables with significant single amount.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Provision for bad debt of the accounts receivable (Continued)

(1) Accounts receivable (Continued)

II) The accrual method of single insignificant amount with separate provision for bad debts:

The Company conducts impairment test separately for receivables that are not significant in terms of individual amounts but have the following characteristics. If there is objective evidence that it has been impaired, the impairment loss is recognized and the provision for bad debts is made based on the difference between the present value of its future cash flows and its carrying amount;

III) The scope of amounts receivable are not accrued for bad debts.

Account Receivables between related parties;

Others receivables to the relevant national industry authorities and industry associations, etc, which belong to the nature of deposits, deposits and the internal receivables of the enterprise or the in-service employees for the business operations, temporary borrowings, reserve funds and other receivables. Except there is evidence showing impairment, no impairment provision is made.

(2) Other receivables

The measurement of impairment loss for other receivables is treated in accordance with the measurement method of impairment loss of the aforementioned financial assets (excluding receivables).

The standard of receivables with a single significant amount:

Other receivables with an amount of CNY10 million (including CNY10 million) are recognized as receivables with significant single amount.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XII) Inventories

1. *Category of inventory*

Inventories include raw materials, self-produced semi-finished goods and work in progress, turnover materials, Stock goods (finished goods).

2. *Valuation method for issuing inventory*

Inventories are determined at the actual cost when acquired. Cost of inventories included purchasing cost, processing cost and other cost. When acquired and approved the subsidiaries of the Company measure the cost by the following two methods:

Actual cost: Cost of inventories is determined using the weighted average method.

Intended cost: difference between the intended cost and the actual cost will be calculated by cost variance account, and the cost difference assumed for the inventories will be pay by installment, so as to adjust the intend cost to the actual cost.

3. *Determination basis of net realizable value of inventories and provision method of inventory depreciation reserve*

After a full inspect of the inventory at the end of the period, the provision for decline in value of inventories shall be withdrawn or adjusted at the lower of the cost of inventory and the net realizable value.

Net realizable value of held-for-sale commodity stocks, such as finished goods, goods-in-stock, and held-for-sale raw materials, during the normal course of production and operation, shall be determined by their estimated sales less the related selling expenses and taxes; the net realizable value of material inventories, which need to be processed, during the normal course of production and operation, shall be determined by the amount after deducting the estimated cost of completion, estimated selling expenses and relevant taxes from the estimated selling price of finished goods; the net realizable value of inventories held for execution of sales contracts or labor contracts shall be calculated on the ground of the contracted price. If an enterprise holds more inventories than the quantity stipulated in the sales contract, the net realizable value of the exceeding part shall be calculated on the ground of general selling price.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XII) Inventories (Continued)

3. *Determination basis of net realizable value of inventories and provision method of inventory depreciation reserve (Continued)*

At the end of the period, provision for inventory depreciation is made based on individual inventory items; For large quantity and low value items of inventories, provision may be made based on categories of inventories; for items of inventories relating to a product line that is produced and marketed in the same geographical area and with the same or similar end uses or purposes, which cannot be practicably evaluated separately from other items in that product line, provision for inventory depreciation may be determined on an aggregate basis.

If the influencing factors of the previous write-down of inventories have disappeared, the amount of write-down shall be restored, and shall be reversed from the provision for falling price of inventories that has been accrued, and the amount transferred back shall be recorded in the current profit or loss.

Unless there is evidence clearly shows that abnormality in market price exists as of the balance sheet date, the net realisable value of inventories is determined based on the market price as of the balance sheet date.

The judgment basis for market price anomalies on the balance sheet date is:

The net realizable value of inventories at the end of current period is determined based on the market price of the balance sheet date.

4. *Inventory system*

The perpetual inventory system is adopted.

5. *Amortization of low-value consumables and packaging materials*

(1) Low-value consumables are amortised using the immediate write-off method.

(2) Packaging materials are amortised using the immediate write-off method.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIII) Contract assets and contract liabilities

The Company presents contract assets or contract liabilities in the balance sheet based on the relationship between performance obligations and customer payments. The consideration (except for receivables) that the company has the right to transfer goods or provide services to customers is listed as contract assets; The obligation of the Company to transfer or receivable customers' considerations and to transfer goods or provide services to customers is presented as contract liabilities.

For contract assets, whether they contain significant financing components, the loss preparation is always measured at the amount equivalent to the expected credit loss for the entire life period., and the increase or reversal of the loss provision resulting therefrom is included in the current profit and loss as an impairment loss or gain.

(XIV) Classified as assets held for sale

The Company recognizes component (or non-current assets) which meet the following conditions as assets held for sale:

- (1) Based on the practice of selling such assets or disposal groups in similar transactions, they can be sold immediately under current conditions;
- (2) The sale is very likely to happen, that is, the company has already made a resolution on a sales plan and obtained a certain purchase commitment. It is expected that the sale will be completed within one year. Those regulations that require the approval of the company's relevant authorities or regulatory authorities before they can be sold have already been approved.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XV) Long-term equity investments

1. *Joint control or significant influence criterion*

Joint control is the contractually agreed sharing of control of an arrangement, and exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control. The Company together with the other joint venture parties can jointly control over the investee and are entitled to the right of the net assets of the investee, the investee is joint venture of the Company.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties. Where the Company can exercise significant influence over the investee, the investee is an associate of the Company.

2. *Determination of initial investment cost*

(1) *Long-term equity investments formed through business combination of entities*

For business combinations involving entities under common control: where the Company pays cash, transfers non-cash assets, bear debts or issue equity securities as consideration of combinations, the initial investment cost of long-term equity investments are the share with reference to the book value of the shareholders' equity of the acquire in the financial statements of the ultimate controlling party on the date of combinations. In connection with imposing control over the investee under joint control as a result of additional investment and other reasons, on the combination date, the initial cost of long-term equity investments shall be determined based on share of carrying amounts in the consolidated financial statement of the ultimate controlling party by net assets of the combined party after the combination. The difference between initial investment cost and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust share premium. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

Business combinations involving entities not under common control: the cost of the combination ascertained on the date of acquisition shall be taken as the initial investment cost of the long-term equity investments. In connection with imposing control over the investee not under joint control as a result of additional investment and other reasons, the initial investment cost when changing to the cost method shall be the sum of the carrying value of the equity investment originally held and the newly increased initial investment cost.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XV) Long-term equity investments (Continued)

2. *Determination of initial investment cost (Continued)*

(2) *Long-term equity investments acquired by other means*

The initial cost of investment of a long-term equity investment obtained by the Company by cash payment shall be the purchase cost which is actually paid.

The initial cost of investment of a long-term equity investment obtained by the Company by means of issuance of equity securities shall be the fair value of the equity securities issued.

If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the initial cost of investment of a long-term equity investment received the non-monetary assets transaction, shall be determined on the basis of the fair value of the assets surrendered and the related tax payable, unless there are concrete evidence that the fair value of the assets received is more reliable; For non-monetary assets transaction which does not meet the above conditions, the initial cost of investment of a long-term equity investment received shall be the book value of the assets surrendered and the relevant taxes payable.

The initial cost of investment of a long-term equity investment obtained by the Company through debt restructurings shall be ascertained based on their fair value.

3. *Subsequent measurement and recognition of profit or loss*

(1) *Long-term equity investment accounted for by cost method*

Long-term equity investment in subsidiaries of the Company is accounted for by cost method, except for the actual consideration paid for the acquisition of investment or the declared but not yet distributed cash dividends or profits which are included in the consideration, investment gains is recognized as the Company' shares of the cash dividends or profits declared by the investee.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XV) Long-term equity investments (Continued)

3. *Subsequent measurement and recognition of profit or loss (Continued)*

(2) Long-term equity investment accounted for by equity method

Long-term equity investments of associates and jointly controlled entities are accounted for using equity method. Where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost; where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XV) Long-term equity investments (Continued)

3. *Subsequent measurement and recognition of profit or loss (Continued)*

(2) *Long-term equity investment accounted for by equity method (Continued)*

In recognition of share of losses in the investee, the Company treats it in the following order: Firstly, the Company will write off the carrying value of long-term equity investments. Secondly, in the event the aforesaid carrying value is insufficient for write off, it shall continue to recognize investment loss and write off carrying values of long-term receivables to the extent of the carrying amount of the long-term equity which substantively constitutes the net investment in the investee. Finally, after the above treatment, for the additional obligations which shall be still assumed by entities according to investment contract or agreement, the estimated liabilities shall be recognized based on the obligations which are expected to assume and included in the investment loss for the current period.

(3) *Disposal of long-term equity investments*

For disposal of long-term equity investment, the difference between the book value and the consideration actually received shall be included in the current profit or loss.

For the long-term equity investment under the equity method, when disposing of such investment, part of amounts that shall be originally included in other comprehensive income shall be accounted for in proportion by using the same basis as the investee used for direct disposal of relevant assets or liabilities. The owner's equity which is recognized due to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions shall be transferred in proportion into the current profit or loss, excluding the other comprehensive income derived from changes of net liabilities or net assets due to re-measurement on defined benefit plan by the investee.

When the Group loses the controls or material influence over the investee due to partially disposal of equity investment and other reasons, the remaining equities shall be accounted for in accordance with the standards on recognition and measurement of financial instruments, and the difference between the fair value and the carrying value at the date of losing control or material influence shall be included in current profit or loss. For other comprehensive income recognized in the original equity investment due to the equity method is adopted, it shall be treated using the same accounting basis as the investee used for direct disposal of relevant assets or liabilities when ceasing to use the equity method. All owner's equities which are recognized due to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions shall be transferred into the current profit or loss when ceasing to use the equity method.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XV) Long-term equity investments (Continued)

3. *Subsequent measurement and recognition of profit or loss (Continued)*

(3) *Disposal of long-term equity investments (Continued)*

When the Group loses the controls over the investee due to partially disposal of equity investment and other reasons, the remaining equities after disposal shall be accounted for under equity method in preparation of individual financial statements provided that common control or material influence over the investee can be imposed, and shall be adjusted as if such remaining equities has been accounted for under the equity method since they are obtained. Where the remaining equities after disposal can not impose common control or material influence over the investee, it shall be accounted for according to relevant provisions of the standards on recognition and measurement of financial instruments, and the difference between fair value and the carrying value on the date of losing control shall be included in the current profit or loss.

The disposed equity interest was acquired in a business combination as resulted from such as making additional investment, the remaining equity interest after disposal will be accounted for using cost method or equity method when preparing the separate financial statements. Other comprehensive income and other owners' equity recognized when the equity interests held on the acquisition date is accounted for using equity method and shall be transferred on pro rata basis; For the remaining equity interest after disposal accounted for using the recognition and measurement standard of financial instruments, other comprehensive income and other owners' equity shall be fully transferred.

(XVI) Investment property

Investment property is held to earn rentals or for capital appreciation or both which include leased land use rights; land use rights held for sale after appreciation; leased buildings (including buildings after self-completion of construction or development for the purpose of leasing and buildings that is being constructed or developed for the purpose of leasing in future).

The Company's existing investment property is measured at cost. Investment property measured at cost – buildings held for leasing shall adopt the same depreciation policy for fixed assets of the company, land use rights held for leasing shall adopt the same amortization policy for the intangible assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVII) Fixed assets

1. Conditions for recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year. Fixed asset is recognized when it meets the following conditions:

- (1) It is probable that the economic benefits associated with the fixed asset will flow to the enterprise;
- (2) Its cost can be reliably measured.

2. Depreciation method for various fixed assets

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. Where the parts of a fixed asset have different useful lives or cause economic benefits for the enterprise in different ways, different depreciation rates or depreciation methods shall apply, and each part is depreciated separately.

For fixed assets leased under finance lease, if it can be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation policies in line with the fixed assets will be adopted for depreciation during the remaining useful life of the leased asset. If it cannot be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation policies in line with the fixed assets will be adopted for depreciation during the shorter of the lease term and the remaining useful life of the leased asset.

The depreciation period and annual depreciation rate of various fixed assets are as follows:

| Categories | Depreciation period | Estimated residual value (%) | Annual depreciation rate (%) | Depreciation method |
|--------------------------|---------------------|------------------------------|------------------------------|----------------------|
| Houses and buildings | 15–30 | 3 | 3.23–6.47 | straight line method |
| Machinery and equipment | 7–15 | 3 | 6.47–13.86 | straight line method |
| Transportation equipment | 5–6 | 3 | 16.17–19.40 | straight line method |
| Electronic equipment | 5–10 | 3 | 9.70–19.40 | straight line method |
| Office equipment | 5–9 | 3 | 10.78–19.40 | straight line method |
| Others | 5–9 | 3 | 10.78–19.40 | straight line method |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVII) Fixed assets (Continued)

3. *Impairment test method of fixed assets and accrual method of impairment provision*

At the end of each period, the company judges whether the fixed assets may show signs of impairment.

If there are signs of impairment of fixed assets, the recoverable amount should be estimated. The recoverable amount is determined based on the higher one between the net amount of the fair value of the fixed assets minus the disposal expenses and the current value of the estimated future cash flow of the fixed assets.

When the recoverable amount of a fixed asset is lower than its book value, the book value of the fixed asset is written down to the recoverable amount. The amount of write-down is recognized as impairment loss of fixed assets and recorded in the current profit and loss, and meanwhile accrue impairment of assets.

After the impairment loss of fixed assets is confirmed, the depreciation of the impaired fixed assets shall be adjusted accordingly in the future period so that the book value of the adjusted fixed assets (after deducting the estimated net residual value) will be systematically amortized over the remaining useful life of the fixed assets.

Once the impairment loss of fixed assets is confirmed, it will not be reversed in subsequent accounting periods.

Where there are indications that a fixed asset may be impaired, the enterprise estimates the recoverable amount based on a single fixed asset. Where it is difficult for an enterprise to estimate the recoverable amount of a single fixed asset, the recoverable amount of the asset group is determined on the basis of the asset group to which the fixed asset belongs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVII) Fixed assets (Continued)

4. *Recognition basis and measurement method of fixed assets under finance lease*

Where any one of the following conditions is provided in the lease agreement between the Company and the lessor, assets under finance lease will be recognized:

- (1) upon the expiry of lease, the ownership of the leased asset is transferred to the Company;
- (2) The Company has the option to purchase the leased asset, the purchase consideration entered into is expected to be far less than the fair value of the leased asset upon the exercise of the option;
- (3) the lease term accounts for the majority of the useful life of the leased asset;
- (4) the present value of the minimum lease payment upon the commencement of the lease is substantially the same as the fair value of the leased asset.

On the commencement of the lease, the leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments, and the minimum lease payments shall be recorded as the carrying amount of long-term payables. The difference between the recorded amount of the leased asset and the minimum lease payments shall be accounted for as unrecognized finance charge.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Construction in progress

1. *Categories of construction in progress*

Construction in progress is mainly accounted for by project classification; fixed assets that are purchased or not yet purchased are accounted for in long-term equipment and assets.

2. *Standards and timings for converting construction in progress to fixed assets*

The total value of the construction in progress before the construction of the asset is ready for its use, as the recorded value of the fixed assets. If the construction in progress of fixed assets constructed are ready for their intended use but the final account of completed project has not been issued, it should be transferred to fixed assets at an estimated cost according to the construction budget, construction price or actual cost, and depreciation should be provided according to depreciation policy for fixed assets from the date when the assets are ready for their intended use. When the final account of completed project is issued, the estimated cost will be adjusted according to the actual cost, while the original depreciation charge will not be adjusted.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Construction in progress (Continued)

3. *Impairment test method and accrual method for impairment preparation of construction in progress*

At the end of each period, the company judges whether there is any indication that the construction in progress may be impaired.

Where there are indications that a construction in progress may be impaired, the company estimates the recoverable amount on the basis of a single construction in progress. Where it is difficult for an enterprise to estimate the recoverable amount of a single construction in progress, the recoverable amount of the asset group is determined on the basis of the asset group to which the construction in progress belongs.

The recoverable amount shall be determined in light of the higher one of the net amount of the fair value of the construction in progress minus the disposal expenses and the current value of the expected future cash flow of the construction in progress.

When the recoverable amount of the construction in progress is lower than its book value, the book value of the construction in progress is written down to the recoverable amount, and the amount of the write-down is recognized as the impairment loss of the construction in progress and is included in the current profit and loss. Meanwhile, impairment provisions for construction in progress should be accrued.

Once the depreciation loss of the construction in progress is confirmed, it will not be reversed in the subsequent accounting period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Borrowing costs

1. *Criteria for recognition of capitalized borrowing costs*

Borrowing costs refers to the borrowing interests, amortization of discounts or premiums, ancillary costs and exchange differences arising from foreign currency borrowings, etc.

For borrowing costs incurred by the Company that are directly attributable to the acquisition, construction or production of assets qualified for capitalization, the costs will be capitalized and included in the costs of the related assets. Other borrowing costs shall be recognized as expense in the period in which they are incurred and included in profit or loss for the current period.

Assets qualified for capitalization are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period for acquisition, construction or production to get ready for their intended use or sale.

Capitalization of borrowing costs begins when the following three conditions are fully satisfied:

- (1) expenditures for the assets (including cash paid, transferred non-currency assets or expenditure for holding debt liability for the acquisition, construction or production of assets qualified for capitalization) have been incurred;
- (2) borrowing costs have been incurred;
- (3) acquisition, construction or production that are necessary to enable the asset reach its intended usable or saleable condition have commenced.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Borrowing costs (Continued)

2. Capitalization period of borrowing costs

The capitalization period shall refer to the period between the commencement and the cessation of capitalization of borrowing costs, excluding the period in which capitalization of borrowing costs is temporarily suspended.

Capitalization of borrowing costs shall be suspended during periods in which the qualifying asset under acquisition and construction or production ready for the intended use or sale.

If part of an asset being acquired, constructed or produced has been completed respectively and put into use individually, capitalization of borrowing costs should be suspended.

If different parts of the assets acquired, constructor produced are completed separately, but such asset will not be ready for the intended use or sale until all parts have been completed, then the borrowing costs will be capitalized until the completion of all parts of the said asset.

3. Suspension of capitalization period

Capitalization of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months; if the interruption is a necessary step for making the qualifying asset under acquisition and construction or production ready for the intended use or sale, the

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Borrowing costs (Continued)

4. *Calculation method of capitalization amount of borrowing costs*

Specific borrowings for the acquisition, construction or production of assets qualified for capitalization, borrowing costs of the specific borrowings actually incurred in the current period minus the interest income earned on the unused borrowing loans as a deposit in the bank or as investment income earned from temporary investment will be used to determine the amount of borrowing costs for capitalization.

For the general borrowings used for the acquisition, construction or production of assets eligible for capitalization, the weighted average of the asset expenditures over the accumulated borrowings over the special borrowings is multiplied by the capitalization rate of the general borrowings used, to calculate the amount of interest that should be capitalized for general borrowings. The capitalization rate is determined based on the weighted average interest rate of general borrowings.

If there is a discount or premium on the loan, the discount or premium amount to be amortized in each accounting period shall be determined according to the actual interest rate method, and the interest amount of each period shall be adjusted.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XX) Intangible assets

1. Valuation method of intangible assets

(1) Intangible assets are initially measured at cost upon acquisition

The costs of an externally purchased intangible asset include the purchase price, relevant taxes and expenses paid, and other expenditures directly attributable to putting the asset into condition for its intended use. If the payment for an intangible asset is delayed beyond the normal credit conditions and it is of financing nature in effect, the cost of the intangible assets shall be ascertained based on the present value of the purchase price.

The amount of intangible assets acquired from debt restructuring should be recorded at the fair value of such intangible assets, and the difference between the carrying amount of the restructured debt and the fair value of the intangible assets acquired from debt restructuring should be included in the profit or loss for the current period.

If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the intangible assets received in the non-monetary assets transaction, shall be measured on the basis of the fair value of the assets surrendered, unless there are concrete evidence that the fair value of the assets received is more reliable; For non-monetary assets transaction which does not meet the above conditions, the cost of intangible assets received shall be the book value of the assets surrendered and the relevant taxes and expenses payable, and the profit or loss will not be recognised.

The intangible assets acquired by the enterprise under the same control are determined based on the book value of the merged party; the intangible assets acquired by the enterprises under the same control are determined at fair value.

Intangible assets developed by the company itself, whose costs include: materials used in the development of the intangible assets, labor costs, registration fees, amortization of other patents and concessions used in the development process, and interest charges to meet capitalization conditions, and other direct costs incurred to bring the intangible asset to its intended use.

(2) Subsequent measurement

Analyze and judge the service life of intangible assets.

For intangible assets with a limited service life, they are amortized on a straight-line basis over the period that brings economic benefits to the enterprise; If it is unforeseen that the intangible assets will bring economic benefits to the enterprise, it shall be regarded as an intangible asset with an indefinite useful life and shall not be amortized.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XX) Intangible assets (Continued)

2. *Estimated useful lives for the intangible assets with finite useful life:*

When estimating the service life of an intangible asset with a limited service life, the company generally considers the following factors: (1) the normal life cycle of products manufactured using the asset and information on the useful life of similar assets; (2) the current stage of technology, technology, etc. Situation and estimates of future trends; (3) Market demand for products or services provided by the assets; (4) Current or potential competitors expected actions; (5) Expected maintenance expenditures to maintain the economic benefits of the assets, and the company's ability to pay for related expenses; (6) relevant legal regulations or similar restrictions on the term of the asset's control, such as the license period, lease period, etc.; (7) and the company's use of the remaining useful life of other assets.

At the end of each period, the service life and amortization method of intangible assets with limited useful life are reviewed.

After review, the useful life and amortization method of intangible assets at the end of the year are not different from previous estimates.

3. *Judgment basis of intangible assets with uncertain service life:*

The company recognize those assets which cannot bring economic benefits to the company or the intangible assets with uncertain service life as intangible assets with uncertain service lives.

Judgment basis for the uncertainty of useful life: 1. It is due to contractual rights or other legal rights, but there is no clear term of use for contractual or legal provisions; 2. It is impossible to judge whether intangible assets will be brought to the company due to the situation of the same industry or the argumentation of relevant experts. The period of economic benefits.

At the end of each year, the review of the useful life of intangible assets with an indefinite useful life shall be carried out in a bottom-up manner. The relevant departments of intangible assets shall be used for basic review, and whether there is a change in the judgment basis for the indefinite useful life shall be evaluated.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XX) Intangible assets (Continued)

4. *Provision for impairment of intangible assets*

For intangible assets with a certain useful life, if there is any sign of significant impairment, an impairment test will be conducted at the end of the period.

For intangible assets with indefinite useful lives, impairment tests are conducted at the end of each period.

Impairment tests are performed on intangible assets to estimate their recoverable amount. If there is any indication that an intangible asset may be impaired, the company estimates its recoverable amount on the basis of a single intangible asset. Where it is difficult for the company to estimate the recoverable amount of a single asset, the recoverable amount of the intangible asset group is determined on the basis of the asset group to which the intangible asset belongs.

The recoverable amount is determined based on the higher one between the net amount of the fair value of intangible assets minus the disposal expenses and the present value of the estimated future cash flow of the intangible assets.

When the recoverable amount of an intangible asset is lower than its book value, the book value of the intangible asset is written down to the recoverable amount. The write down amount is recognized as impairment loss of intangible assets, and is included in the current profit and loss, meanwhile, intangible assets are accrued impairment of assets.

After the impairment loss of intangible assets is confirmed, the depreciation or amortization cost of the impairment of intangible assets will be adjusted accordingly in the future period so that the intangible assets can be systematically amortized with the adjusted book value of intangible assets (net of estimated net Residual value).

Once the impairment loss of intangible assets is confirmed, it will not be reversed in subsequent accounting periods.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XX) Intangible assets (Continued)

5. *Specific criteria for the division of research phase and development phase*

The expenses for internal research and development projects of the Company are divided into expenses in the research phase and expenses in the development phase.

Research phase: Scheduled innovative investigations and research activities to obtain and understand scientific or technological knowledge.

Development phase: The phase of applying research or other knowledge to a plan or design to produce new or substantially improved materials, devices, products, etc. prior to commercial production or use.

6. *Expenditure in the development phase meets the specific criteria for capitalization*

The expenses in the development phase are recognized as intangible assets if the following conditions are fulfilled:

- (1) It is technically feasible to complete this intangible asset so that it can be used or sold;
- (2) Have the intention to complete the intangible assets and use or sell them;
- (3) The ways in which intangible assets generate economic benefits include the existence of a market for intangible assets that are capable of proving the existence of a market for the products produced using such intangible assets. Intangible assets are used internally and can prove their usefulness;
- (4) Sufficient technical, financial, and other resources to support the development of this intangible asset and the ability to use or sell the intangible asset;
- (5) Expenditure attributable to the development phase of intangible assets can be reliably measured.

Expenditure in the development phase, if it does not meet the conditions listed above, is charged to profit or loss for the current period when incurred. Expenditure in the research phase is included in current profit or loss when incurred.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXI) Impairment of long-term assets

Long-term assets, such as long-term equity investment, investment properties, fixed assets, projects under construction, intangible assets that measured at cost are tested for impairment if there is any indication that an asset may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs to is determined. A group of assets is the smallest group of assets that is able to generate cash inflows independently.

Impairment test to goodwill shall be carried out at least at the end of each year.

When the Company carry out impairment test to goodwill, the Company shall, as of the purchasing day, allocate on a reasonable basis the carrying value of the goodwill formed by merger of enterprises to the relevant asset groups, or if there is a difficulty in allocation, to allocate it to the sets of asset groups. When the carrying value of goodwill is allocated to the related asset group or sets of asset group, the allocation shall be made based on the proportion of the fair value of each asset groups or sets of asset groups to the total fair value of the relevant assets groups or sets of asset group. If there is difficulty for the fair value to be reliably measured, the allocation shall be made based on the proportion of the carrying value of each asset groups or sets of asset groups to the total carrying value of the relevant assets groups or sets of asset groups.

When performing an impairment test on a related asset group or asset group combination that includes goodwill, If there is any indication of impairment in the asset group or asset group combination related to goodwill, the asset group or asset group combination not including goodwill is tested for impairment, and the recoverable amount is calculated and compared with the relevant book value, to confirm the corresponding impairment loss. The asset group or asset group combination containing the goodwill is tested for impairment, and the book value of the relevant asset group or asset group combination (including the book value portion of the assessed goodwill) and its recoverable amount are compared. If the recoverable amount of the relevant asset group or asset group combination is lower than its book value, the impairment loss of goodwill is recognized. Once the above asset impairment loss is recognised, it will not be reversed in the subsequent accounting periods.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXII) Long-term prepaid expenses

Long-term prepaid expenses are expenses which have occurred but will benefit over 1 year and shall be amortized over the current period and subsequent periods.

The long-term deferred expenses incurred by the company shall be measured at the actual cost and amortized on an average basis for the expected period of benefit. For the long-term deferred expenses that cannot benefit the subsequent accounting period, the amortized value of the project shall be included in the current profit and loss when determined.

(XXIII) Employee Remuneration

1. *Method of accounting treatment for short-term remuneration*

During the accounting period when the staff provides service, the Company will recognize the short-term remuneration incurred as liabilities, and the liabilities would be charged into current profits and loss or costs of assets.

The Company will pay social insurance and housing funds and will make provision of trade union funds and staff education costs in accordance with the requirements. During the accounting period when the staff provides service, the Group will determine the relevant amount of employee benefits in accordance with the required provision basis and provision ratios.

When the employee welfare fee is non-monetary benefit, if it can be reliably measured, it shall be measured at fair value.

2. *Method of accounting treatment for retirement benefit plan*

(1) *Defined contribution scheme*

The Company will pay basic pension insurance and unemployment insurance in accordance with the relevant provisions of the local government for the staff. During the accounting period when the staff provides service, the Company will calculate the amount payable in accordance with the local stipulated basis and proportions which will be recognized as liabilities, and the liabilities would be charged into current profits and loss or costs of assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIII) Employee Remuneration (Continued)

2. Method of accounting treatment for retirement benefit plan (Continued)

(2) Defined benefit scheme

The welfare responsibilities generated from defined benefit scheme based on the formula determined by projected unit credit method would be vested to the service period of the staff and charged into current profits and loss or costs of assets.

The deficit or surplus generated from the present value of obligations of the defined benefit scheme minus the fair value of the assets of defined benefit scheme is recognized as net liabilities or net assets. When the defined benefit scheme has surplus, the Company will measure the net assets of the defined benefit scheme at the lower of the surplus of defined benefit scheme and the upper limit of the assets.

All defined benefit plans obligations, including the expected duty of payment within 12 months after the end of annual reporting period during which the staff provided service, were discounted based on the bond market yield of sovereign bond matching the term of defined benefit plans obligations and currency or corporate bonds of high quality in the active market on the balance sheet date.

The service cost incurred by defined benefit scheme and the net interest of the net liabilities and net assets of the defined benefit scheme would be charged into the current profits and loss or relevant costs of assets. The changes generated from the re-calculation of the net liabilities or net assets of the defined benefit scheme would be included in the other comprehensive income and are not reversed to profit or loss in a subsequent accounting period. When the original defined benefit plan is terminated, all the parts that were originally included in other comprehensive income are carried forward to the undistributed profit within the scope of equity.

When the defined benefit scheme is settled, the gain or loss is confirmed based on the difference between the present value of obligations and the settlement price of the defined benefit scheme as at the balance sheet date.

For details, please refer to "VI. (XXVI) Employee benefits payable" in this note.

3. Accounting treatment for dismissal benefits

The Company will pay dismissal benefits when the Group can no longer withdraw the offer of termination plan or layoff proposal or when the Group recognizes costs for restructuring which involving the payment of dismissal benefits (whichever the earliest). The remuneration incurred by the dismissal benefits will be recognized as liabilities which would be charged into current profits and loss.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIV) Estimated liabilities

When the Company is involved in litigation, debt guarantees, loss contracts, and restructuring matters, if such matters are likely to require future delivery of assets or provision of labor services, and the amount can be reliably measured, it is recognized as an estimated liability.

1. *Recognition criteria for estimated liabilities*

When the obligations related to the contingent events meet the following conditions at the same time, the company recognizes the estimated liabilities:

- (1) the obligation is a present obligation of the Group;
- (2) it is probable that an outflow of economic benefits will be required to settle the obligation;
- (3) the amount of the obligation can be measured reliably.

2. *Method of measuring the various estimated liabilities*

The Company's estimated liabilities are initially measured at the best estimate of the expenditure required to perform the relevant current obligations.

When determining the best estimate, the company considers factors such as risks, uncertainties and time value of money related to contingent events. For the significant impact of the time value of money, the best estimate is determined by discounting the relevant future cash outflows.

The best estimates are handled as follows:

If there is a continuous range (or interval) of the required expenditure, and the likelihood of occurrence of various results within the range is the same, the best estimate is determined by the average of the intermediate value of the range, that is, the upper and lower limits.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIV) Estimated liabilities (Continued)

2. Method of measuring the various estimated liabilities (Continued)

The expenses required does not have a successive range (or band), or although there is a successive range (or band), the possibilities of occurrence of each result are not the same, if the contingency is related to individual item, the best estimate should be determined as the most likely amount; where the contingency is related to a number of items, the best estimate should be calculated and determined according to the possible results and the relevant possibilities.

Where some or all of the expenditure required to settle an estimated liability is expected to be reimbursed by a third party, the reimbursement is separately recognized as an asset when it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement is limited to the carrying amount of the liability recognized.

(XXV) Safety production fee

The provision of Group's machinery production enterprise safety production costs is based on the actual sales revenue in last year, which is extracted monthly by taking excess regressive manner in accordance with the following standard:

1. Operating income of CNY10 million and below, accrued 2%;
2. Operating income of CNY10 million to CNY100 million, accrued 1%;
3. Operating income of CNY100 million to CNY1,000 million, accrued 0.2%;
4. Operating income of CNY1,000 million to CNY5,000 million, accrued 0.1%;
5. Operating income above CNY5,000 million, accrued 0.05%.

The provision of production safety fee is recognised in profit and loss for the current period and "special reserve" account shown separately under owner's equity. When using the reserve for maintaining production safety fee, the amount will be debited from the "special reserve" if the fee is expenses nature. When using the reserve for maintaining production safety fee of fixed asset, the amount will be debited from the "construction-in-progress" item for the amount recorded in the cost of related assets. When the status of the project is ready for intended use, the costs of such Production safety fee should be recognised as fixed assets. Meanwhile, "special reserve" will be offset by the cost forming fixed asset. If the balance of "special reserve" is inadequate for offsetting purpose, the production safety fee will be recognised in profit and loss for the year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVI) Share-based payments

The Company's share-based payment represents transactions in which the Company receives services from employee by granting equity instruments or incurring liabilities that are based on the price of the equity instruments to the employee or other suppliers. The Company's share-based payments included equity-settled share-based payments and cash-settled share-based payments.

1. *Equity-settled share-based payment and equity instruments*

In the case of an equity-settled share-based payment in exchange for service provided by an employee, the fair value of the employee's equity instrument is measured. On each balance sheet date during the waiting period, the Company makes the best estimate of the number of vesting equity instruments based on the latest information such as changes in the number of employees with vesting rights and whether the performance requirements are met. Based on this, according to the fair value of the grant date, the services obtained in the current period will be included in the relevant costs or expenses, and the capital reserve will be increased accordingly. No adjustments have been made to the identified related costs or expenses and total owner's equity after the vesting date. However, if the vesting right is granted immediately after the grant, the relevant costs or expenses shall be included in the fair value on the grant date, and the capital reserve shall be increased accordingly.

For the payment of shares that ultimately fails to exercise, the cost or expense is not recognized unless the exercise conditions are market conditions or non-vesting conditions. At this time, whether or not the market conditions or non-vesting conditions are met, it is considered as a vesting right as long as the non-market conditions in all the vesting conditions are met.

If the equity-settled share-based payment is cancelled, the cancellation date is treated as an accelerated exercise and the unconfirmed amount is immediately confirmed. If the employee or other party can choose to satisfy the non-vesting conditions but fails to meet the waiting period, it shall cancel the equity-settled share-based payment processing. However, if a new equity instrument is granted and the new equity instrument granted on the grant date of the new equity instrument is used to replace the cancelled equity instrument, and the granted alternative equity instrument is treated in the same manner as the original equity instrument terms and conditions are modified.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVI) Share-based payments (Continued)

2. *Cash-settled share-based payments and equity instrument*

A cash-settled share-based payment shall be measured in accordance with the fair value of liability calculated and confirmed based on the shares or other equity instruments undertaken by the Group. It is initially measured at fair value on the date of grant, taking account into the terms and conditions of the equity instrument granted. If the right may be exercised immediately after the grant, the fair value of the liability undertaken by the enterprise shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly. If the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the enterprise. For each of the balance sheet date and settlement date before the settlement of the relevant liabilities, fair value of the liabilities will be remeasured, and the changes will be included in the profit or loss for the current period.

(XXVII) Revenue

The scope of merger in the application of new revenue standards include: Harbin Electric Co., Ltd. and all its subsidiaries;

- (1) On the contract start date, the enterprise shall evaluate the contract and identify the individual performance obligations included in the contract, and determine whether each individual performance obligation is fulfilled within a certain period of time, or is performed at a certain point in time, and then, when each individual performance obligation is fulfilled, the income is separately recognized.

The performance obligation refers to the commitment of the enterprise in the contract to transfer the goods to the customer clearly. The performance obligation includes both the commitments specified in the contract and the commitments that the client reasonably expects the company to perform when the contract is concluded due to the company's publicly announced policies, specific statements or past practices. The initial activities that an enterprise should undertake to perform a contract usually do not constitute a performance obligation unless the activity transfers the promised goods to the customer.

The enterprise shall measure the income according to the transaction price allocated to each individual performance obligation. The company shall determine the transaction price in accordance with the terms of the contract and in combination with its previous practices. When determining the transaction price, the enterprise should consider the impact of variable consideration, major financing components in the contract, non-cash consideration, and customer consideration.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVII) Revenue (Continued)

- (2) *If one of the following conditions is met, it is a performance obligation to be performed within a certain period of time; otherwise, it is a performance obligation at a certain point in time:*

The customer obtains and consumes the economic benefits brought by the performance of the enterprise at the same time as the company performs the contract.

The customer can control the goods under construction in the process of corporate performance.

The goods produced during the performance of the enterprise have irreplaceable uses, and the enterprise has the right to receive payment for the part of the performance that has been completed so far throughout the contract period.

- (3) *Confirmation of performance obligation income performed at a certain point in time*

For performance obligations performed at a certain point in time, the enterprise shall earn income when the customer obtains control of the relevant commodity. In determining whether a customer has acquired control of a commodity, the company should consider the following signs:

The enterprise has the current right to collect the goods, that is, the customer has a current payment obligation for the goods.

The enterprise has transferred the legal title of the commodity to the customer, that is, the customer already owns the legal title of the commodity.

The enterprise has transferred the physical goods to the customer, that is, the customer has possessed the goods in kind.

The enterprise has transferred the main risks and rewards of ownership of the goods to the customer, that is, the customer has obtained the main risks and rewards of ownership of the goods.

The customer has accepted the goods.

Other indications that the customer has obtained control of the commodity.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVII) Revenue (Continued)

(4) *Confirmation of performance obligation income performed during a certain period of time*

For performance obligations performed within a certain period of time, the enterprise shall confirm the income according to the progress of the performance during the period, unless the performance of the performance cannot be reasonably determined. Enterprises should consider the nature of the goods and use the output method or input method to determine the appropriate performance schedule. Among them, the output method is based on the value of the goods that have been transferred to the customer to determine the performance of the customer; the input method is based on the company's commitment to fulfill the performance obligations. For similar performance obligations in similar situations, companies should use the same method to determine the progress of compliance.

When the performance of the performance cannot be reasonably determined, if the costs incurred by the enterprise are expected to be compensated, the revenue shall be recognized according to the amount of costs incurred, until the performance of the performance can be reasonably determined.

(5) *Specific circumstances of revenue recognition*

The company's production of more than 600MW (including 600MW) units, when the completion of the degree of engineering reached 40% and above, the input method is used for accounting; When the completion degree of the project is below 40% and other units below 600MW are not accounted for by the input method, the income is confirmed by the main body.

The company's nuclear power plants, nuclear island products in line with the conditions of the construction contract, when the completion of the degree of engineering reached 10% and above, the input method is used for accounting; When the degree of completion of the project is below 10%, it is not accounted for by the input method.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVIII) Contractual costs

Contract costs are divided into contract performance costs and contract acquisition costs.

The costs incurred by the Company for the performance of the contract are recognized as an asset as contract performance costs when the following conditions are met:

1. This cost is directly related to a current or expected contract.
2. This cost increases the resources of the company to fulfill its performance obligations in the future.
3. The cost is expected to be recovered.

Assets related to the cost of the contract are amortized on the same basis as the revenue recognition of the goods or services related to the asset; however, if the amortization period of the contract acquisition cost is less than one year, the Company will account for the current profits and losses when incurred.

For assets related to contract costs whose carrying amount is higher than the difference between the following two items, the Company will make provision for impairment for the excess and recognize it as asset impairment loss:

1. The remaining price expected to be obtained by the transfer of goods or services related to the asset;
2. Estimate costs that will occur in order to transfer the relevant goods or services.

If the above-mentioned asset impairment provision is reversed, the book value of the transferred asset shall not exceed the book value of the asset on the reversal date without presuming the provision for impairment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Government grant

1. *Types*

Government subsidies are monetary assets and non-monetary assets that the company obtains from the government free of charge. They are divided into government subsidies related to assets and government subsidies related to income.

Government grants related to assets refer to government grants acquired by the company for the purpose of purchasing or constructing or otherwise forming long-term assets. Government grants related to income refer to government grants other than government grants related to assets.

2. *Accounting treatment method and confirmation time*

The company's specific criteria for dividing government subsidies into assets are:

Government grants related to the acquisition of long-term assets such as fixed assets and intangible assets are recognized as deferred income. During the useful life of the relevant assets, they are included in the current profit and loss in a reasonable and systematic manner. (According to the daily activities of the company, it is included in other income; if it is not related to the daily activities of the company, it is included in the non-operating income);

A government grant related to income is used for compensation for related expenses or losses to be incurred by the Company in subsequent periods, the grant shall be recognized as deferred income. And in the period of confirming the related cost, expense or loss, it shall be included in the current profit and loss. (The government grant related to the daily activities of the company is included in other income; If it is not related to the daily activities of the company, it is included in non-operating income); For the compensation of related costs and losses already incurred by the company, it shall be directly included in the current profit and loss. (The government grant related to the daily activities of the company is included in other income; If it is not related to the daily activities of the company, it is included in non-operating income).

When the company does not explicitly approve the specific object of the government document of the comprehensive project, it will be decomposed into the part related to the asset and the part related to the income, and the accounting treatment will be carried out separately; If it is difficult to distinguish, the government subsidy as a whole is classified as a government grant related to the income, which is included in the current profit and loss as the case may be, or is recognized as the current income in the project period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXX) Deferred income tax assets and liabilities

Deferred income tax assets are recognized for deductible temporary differences to the extent of taxable income that is probable in the future to deduct deductible temporary differences.

For taxable temporary differences, deferred income tax liabilities are recognized except in exceptional circumstances.

Special circumstances for not recognizing deferred income tax assets or deferred income tax liabilities include: Initial recognition of goodwill; other transactions or events that occur in addition to the business combination that do not affect accounting profits or taxable income (or deductible losses).

When there is a statutory right to settle on a net basis and it is intended to settle on a net basis or acquire assets and pay off liabilities simultaneously, the current income tax assets and current income tax liabilities are presented at the net amount after offset.

When there is a statutory right to settle the current income tax assets and current income tax liabilities on a net basis, and the deferred income tax assets and deferred income tax liabilities are related to the income tax levied by the same tax collection authority on the same taxpayer or related to different taxpayers, however, in the future period in which each of the important deferred income tax assets and liabilities are reversed, the taxpayer involved intends to settle the current income tax assets and liabilities on a net basis or acquire assets and liquidate liabilities simultaneously, the deferred income tax assets and deferred income tax liabilities are presented at the net amount after offset.

(XXXI) Leases

1. *Operating lease accounting*

- (1) The lease fee paid by the company for renting assets shall be apportioned on a straight-line basis over the entire lease term without deduction of the rent-free period and included in the current expenses. The initial direct costs associated with the lease transaction paid by the company are included in the current expenses.

When the lessor of the asset bears the expenses related to the lease that should be borne by the company, the company deducts the part of the expenses from the total rent. The deducted rental expenses are apportioned during the lease term and included in the current expenses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Leases (Continued)

1. *Operating lease accounting (Continued)*

- (2) The rental fee charged by the company for leasing assets is apportioned on a straight-line basis over the entire lease term without deduction of the rent-free period, and is recognized as the lease-related income. The initial direct expenses related to the lease transaction paid by the company are included in the current expenses; if the amount is large, it is capitalized, and is included in the current income in the same period as the lease-related income is recognized in the entire lease period.

When the company assumes the lease-related expenses that should be borne by the lessee, the company deducts the part of the expenses from the total rental income, and distributes the deducted rental expenses during the lease term.

2. *Financial lease accounting*

- (1) Financing leased assets: On the date of the lease start, the company will use the lower of the fair value of the leased assets and the present value of the minimum lease payments as the book value of the leased assets, and the minimum lease payments as the long-term payables. The value of the account is recorded as the unrecognized financing fee. The company uses the effective interest rate method to amortize the unrecognized financing expenses during the asset lease period and include them in financial expenses. The initial direct costs incurred by the company are included in the value of the leased asset.
- (2) Financing leased assets: The company recognizes the difference between the sum of the unpaid guarantee residual value and its present value as unrealized financing income on the lease start date, which is recognized as rental income in each period in which the rent is received in the future. The initial direct costs incurred by the company in connection with the lease transaction are included in the initial measurement of the finance lease receivables and reduce the amount of revenue recognized during the lease term.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXII) Discontinued Operation

Discontinued Operation is a separately distinguishable component that satisfies one of the following conditions and that has been disposed of by the Company or classified by the Company as held for sale:

- (1) This component represents an independent principal business or a separate principal operating area;
- (2) This component is part of a related plan to be disposed of for an independent primary business or a separate principal operating area;
- (3) This component is a subsidiary acquired for resale.

(XXXIII) Hedge accounting

1. *Classification of hedging:*

- (1) A fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment (except foreign exchange risk).
- (2) Cash flow hedges is a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognized firm commitment.
- (3) Hedge of a net investment in a foreign operation is a hedge of the exposure to foreign exchange risk associated with a net investment in a foreign operation. Net investment in a foreign operation is the share of interest in the net asset of the foreign operation.

2. *Designation of the hedge relationship and recognition of the effectiveness of hedging:*

At the beginning of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIII) Hedge accounting (Continued)

2. *Designation of the hedge relationship and recognition of the effectiveness of hedging: (Continued)*

Hedging instrument's effectiveness means the degree of the change of fair value and cash flow of the hedging instrument in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The hedge is assessed by the Group for effectiveness on an ongoing basis and judged whether it has been highly effective throughout the accounting periods for which the hedging relationship was designated. A hedge is regarded as highly effective if both of the following conditions are satisfied:

- (1) at the beginning and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated;
- (2) the actual results of offsetting are within a range of 80% to 125%.

3. *Method of Hedge accounting:*

(1) *Fair value hedges*

The change in the fair value of a hedging derivative is recognized in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognized in the profit and loss for the current period.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the profit and loss for the current period over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to the profit and loss for the current period. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized in the profit and loss for the current period.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the profit and loss for the current period. The changes in the fair value of the hedging instrument are also recognized in the profit and loss for the current period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

III. IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIII) Hedge accounting (Continued)

3. Method of Hedge accounting: (Continued)

(2) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income, while the ineffective portion is recognized immediately in the profit or loss for the current period.

If the hedged transaction affects the current profit and loss, when the hedged financial income or financial expenses are recognized or the expected sales occur, the amount recognized in other comprehensive income is transferred to the current profit and loss. If the hedged item is the cost of a non-financial asset or non-financial liability, the amount previously recognized in other comprehensive income is transferred out and included in the initial recognition amount of the non-financial asset or non-financial liability (or if it is recognized in other comprehensive income, it is transferred out in the same period in which the non-financial assets or non-financial liabilities affect profit or loss, and is included in the current profit and loss).

If the expected transaction or the determined commitment is not expected to occur, the accumulated gain or loss of the hedging instrument previously included in the shareholders' equity is transferred out and included in the current profit and loss.

If the hedging instrument has expired, been sold, the contract is terminated or has been exercised (but not replaced or extended), or the designation of the hedging relationship is revoked, then the amount previously included in other comprehensive income is not transferred out until the expected transaction or the determination of the commitment affects the current profit and loss.

(3) Net investment hedging for overseas operations

The hedging of net investments in offshore operations, including the hedging of monetary items as part of a net investment, is similar to the cash flow hedge. The portion of the gain or loss of the hedging instrument that is determined to be an effective hedge is included in other comprehensive income, and the portion of the ineffective hedge is recognised in profit or loss for the current period. When disposing of an overseas operation, any accumulated gain or loss recognised in equity is transferred to profit or loss for the current period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

IV. DESCRIPTION OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS

(I) Changes in accounting policies

1. *The nature, content and reasons for changes in accounting policies*

- (1) On June 15, 2018, the Ministry of Finance issued the Notice of the Ministry of Finance on Revising the Format of the 2018 Annual General Enterprise Financial Statements (Finance (2018) No. 15) and the Interpretation of the Issues Concerning the Format of the Financial Statements of General Enterprises in 2018, and the general corporate financial statement format has been revised. In addition to the implementation of the new financial instrument guidelines and the presentation changes resulting from the new income guidelines, in the balance sheet, the Group reclassified "receivable notes" and "accounts receivable" into the new "receivable notes and accounts receivable"; Reclassify "interest receivable" and "dividend receivable" into "other receivables"; Reclassify "Fixed Assets Cleanup" to "Fixed Assets"; Reclassify "engineering materials" into "construction in progress"; Reclassify "Accounts payable" and "Accounts payable" to the new "Payables payables and accounts payable"; Reclassify "payable interest" and "dividend payable" into "other payables"; And reclassify "special payables" to "long-term payables"; In the income statement, separate the "R&D expenses" under "Management expenses"; and separate the "interest expense" and "interest income" under the "financial expense" item; The enterprise adopts the retrospective adjustment method in accordance with relevant regulations, and adjusts the comparative data of comparable accounting periods accordingly.
- (2) On June 12, 2017, the Ministry of Finance issued the "Accounting Standards for the Interpretation of Business Accounting Standards No. 9 – Accounting Treatment of Net Loss of Investment under the Equity Method", "Interpretation of Accounting Standards for Business Enterprises No. 10 – Depreciation Method Based on Income from the Use of Fixed Assets", "Accounting Standards for Business Enterprises Interpretation No. 11 – Amortization Method Based on Income from the Use of Intangible Assets", and the "Accounting Standards for Business Accounts Interpretation No. 12 – Whether the Providers and Recipients of Key Manager Services are Related to Each Other". According to the interpretation of the four accounting standards, since January 1, 2018, there is no need to retrospectively adjust the comparative data except for the retrospective adjustment of the interpretation of No. 9.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

IV. DESCRIPTION OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS (CONTINUED)

(I) Changes in accounting policies (Continued)

1. *The nature, content and reasons for changes in accounting policies (Continued)*

- (3) In 2017, the Ministry of Finance revised the "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standards for Business Enterprises No. 24 – Hedge Accounting" and "Accounting Standards for Business Enterprises No. 37 – Financial Instruments Presentation". The company has implemented the above revised guidelines since January 1, 2018. According to the guidelines, for financial instruments that have not been terminated for confirmation on the implementation date, if the previous confirmation and measurement are inconsistent with the revised guidelines, they should be retrospectively adjusted. On January 1, 2018, the cumulative effect of the company due to retrospective adjustment is reflected in the adjusted amount of retained earnings and other comprehensive income on January 1, 2018, and no comparison adjustments are made for the comparable amount on December 31, 2017.
- (4) In 2017, the Ministry of Finance revised the Accounting Standards for Business Enterprises No. 14 – Revenue. The company has been implemented since January 1, 2018. The revised standard stipulates that the first implementation of the standard should adjust the retained earnings at the beginning of the year and other related items in the financial statements based on the cumulative impact, and the information for the comparable period will not be adjusted. According to the guidelines, the company only adjusts the cumulative impact of contracts that have not been completed on the first implementation date. On January 1, 2018, the cumulative effect of the company due to retrospective adjustment is reflected in the adjusted amount of retained earnings and other comprehensive income on January 1, 2018, and no comparison adjustments are made for the comparable amount on December 31, 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

IV. DESCRIPTION OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS (CONTINUED)

(I) Changes in accounting policies (Continued)

2. Execution of Accounting (2018) Circular 15 for the affected project names and adjustment amounts in the current and various prior financial statements

| Number | Item | December 31, 2017 | Consolidated balance sheet | | January 1, 2018 |
|--------|--|-------------------|----------------------------|---------------------------------------|-------------------|
| | | | Amount of reclassification | Adjustment amount under remeasurement | |
| 1 | Notes receivable | 4,362,451,678.86 | -4,362,451,678.86 | | |
| 2 | Accounts receivable | 7,223,309,704.58 | -7,223,309,704.58 | | |
| 3 | Notes receivable and accounts receivable | | 11,585,761,383.44 | | 11,585,761,383.44 |
| 4 | Interest receivable | 3,277,397.20 | -3,277,397.20 | | |
| 5 | Dividend receivable | 144,453.39 | -144,453.39 | | |
| 6 | Other receivable | 953,565,790.29 | 3,421,850.59 | | 956,987,640.88 |
| 7 | Fixed assets | 5,960,718,217.02 | 201,003.47 | | 5,960,919,220.49 |
| 8 | Liquidation of fixed assets | 201,003.47 | -201,003.47 | | |
| 9 | Construction in progress | 860,049,881.44 | 3,719,461.29 | | 863,769,342.73 |
| 10 | Construction materials | 3,719,461.29 | -3,719,461.29 | | |
| 11 | Notes payable | 5,479,804,293.43 | -5,479,804,293.43 | | |
| 12 | Accounts payable | 14,051,708,904.60 | -14,051,708,904.60 | | |
| 13 | Notes payable and accounts payable | | 19,531,513,198.03 | | 19,531,513,198.03 |
| 14 | Interests payable | 125,099,549.75 | -125,099,549.75 | | |
| 15 | Dividends payable | 3,569,638.20 | -3,569,638.20 | | |
| 16 | Other payable | 277,646,983.05 | 128,669,187.95 | | 406,316,171.00 |
| 17 | Special payable | 484,953,994.29 | -484,953,994.29 | | |
| 18 | Long term payable | 1,000,000.00 | 484,953,994.29 | | 485,953,994.29 |

| Number | Item | Consolidated income statement (year of 2017) | | | After adjustment |
|--------|-----------------------------------|--|----------------------------|---------------------------------------|------------------|
| | | Before adjustment | Amount of reclassification | Adjustment amount under remeasurement | |
| 1 | Administrative expenses | 2,253,706,207.85 | -558,679,659.76 | | 1,695,026,548.09 |
| 2 | Research and development expenses | | 558,679,659.76 | | 558,679,659.76 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

IV. DESCRIPTION OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS (CONTINUED)

(I) Changes in accounting policies (Continued)

3. Affected items and adjustment amounts under new financial instrument guidelines, and new revenue guidelines

In order to improve the comparability of information in the accounting period, companies can increase the balance sheet for the first year of implementation of the new financial instrument guidelines or the new income standard at the beginning of the year. The main items are as follows:

(1) Affected items and adjustment amounts under the new financial instrument guidelines

| Number | Items | December 31, 2017 | Consolidated balance sheet | | January 1, 2018 |
|--------|-------------------------------------|-------------------|----------------------------|---------------------------------------|-----------------|
| | | | Amount of reclassification | Adjustment amount under remeasurement | |
| 1 | Available-for-sale financial assets | 85,895,000.00 | | -85,895,000.00 | |
| | Other equity instruments | | | | |
| 2 | investment | | | 36,595,000.00 | 36,595,000.00 |
| 3 | Other debt investment | | | 49,300,000.00 | 49,300,000.00 |

(2) Affected items and adjustment amounts under new revenue guidelines

| Number | Items | December 31, 2017 | Consolidated balance sheet | | January 1, 2018 |
|--------|-------------------------|-------------------|----------------------------|---------------------------------------|-------------------|
| | | | Amount of reclassification | Adjustment amount under remeasurement | |
| 1 | Account receivable | 10,588,586,288.14 | -3,365,276,583.56 | | 7,223,309,704.58 |
| 2 | Contractual assets | | 6,811,649,541.54 | | 6,811,649,541.54 |
| 3 | Inventory | 15,546,042,302.41 | -3,446,372,957.98 | | 12,099,669,344.43 |
| 4 | Advance receipts | 19,691,124,928.12 | -19,691,124,928.12 | | |
| 5 | Contractual liabilities | | 19,691,124,928.12 | | 19,691,124,928.12 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

IV. DESCRIPTION OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS (CONTINUED)

(II) Change in accounting estimates

There is no change in accounting estimates in this period.

(III) Important corrections of prior period errors

No corrections to prior period accounting errors using the retrospective restatement method occurred during the reporting period.

(IV) Other matters adjustment

None.

V. TAXATION

(I) Main types of taxes and corresponding tax rates

| Tax Type | Tax basis | Tax rate |
|---------------------------------------|--|-------------------------------|
| Value-added Tax ("VAT") | The output tax is calculated on the basis of the sales goods and taxable service income calculated according to the tax law. After deducting the input tax amount that is allowed to be deducted in the current period, the difference is partly due to the value-added tax. | 3%, 6%, 10%, 11%, 16%, 17% |
| City maintenance and construction tax | Based on business tax paid, VAT and sale tax | 7% |
| Enterprise income tax | Based on taxable income | 25%, 15% |

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

V. TAXATION (CONTINUED)

(I) Main types of taxes and corresponding tax rates (Continued)

Companies subject to different income tax rates are disclosed as follows:

| Name of the companies | Income tax rate |
|---|-----------------|
| Harbin Electric Company Limited (Note 1) | 15% |
| Harbin Turbine Company Limited and its subsidiary (Note 2) | 15% |
| Harbin Power Technology & Trade Inc | 25% |
| Harbin Electrical Machinery Company Limited and its subsidiary (Note 3) | 15% |
| Harbin Power Equipment National Engineering Research Centre Co., Ltd (Note 4) | 15% |
| HE Harbin Power Plant Valve Company Limited (Note 5) | 15% |
| Chengdu Sanliya Technology Company | 25% |
| Harbin Boiler Company Limited and its subsidiary (Note 6) | 15% |
| Harbin Electric Power Equipment Company Limited (Note 7) | 15% |
| Harbin Electric Corporation (QHD) Heavy Equipment Company Limited (Note 8) | 15% |
| Harbin Electric Corporation Finance Company Limited | 25% |
| Harbin Electric International Company Limited (Note 9) | 15% |
| Harbin Electric (H.E) Corporation | 25% |
| Hadian Group Shanxi Environmental Protection Engineering Co., Ltd. | 25% |

(II) Tax Preferences

According to the relevant provisions of the "Enterprise Income Tax Law of the People's Republic of China" (the "EIT Law"), the income tax rate for enterprises is 25%. For enterprises with high and new technology, the income tax rate is 15%. For enterprises with high and new technology, the income tax rate is 15%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

V. TAXATION (CONTINUED)

(II) Tax Preferences (Continued)

2. *Harbin Turbine Company Limited and its subsidiaries*

On 28 August, 2017, Harbin Turbine Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201723000107) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

On 28 August, 2017, Harbin Turbine Ancillary Equipment Engineering Company Limited (哈爾濱汽輪機廠輔機工程有限公司), the subsidiary of Harbin Turbine Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201723000051) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

3. *Harbin Electrical Machinery Company Limited and its subsidiaries*

On 28 August 2017, Harbin Electrical Machinery Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201723000101) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

On 28 August 2017, Harbin Electric Machinery Co., Ltd.'s subsidiary Harbin National Hydropower Equipment Engineering Technology Research Center Co., Ltd. obtained the High and New Technology Enterprise certificate (Number: GR201723000137) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

4. *Harbin Power Equipment National Engineering Research Centre Co., Ltd*

On 28 August 2017, Harbin Power Equipment National Engineering Research Centre Co., Ltd obtained the High and New Technology Enterprise certificate (Number: GR201723000350) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

V. TAXATION (CONTINUED)

(II) Tax Preferences (Continued)

5. *HE Harbin Power Plant Valve Company Limited*

On 28 August 2017, HE Harbin Power Plant Valve Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201723000181) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

6. *Harbin Boiler Company Limited and its subsidiary*

On 28 August 2017, the company obtained the High and New Technology Enterprise certificate (Number: GR201723000081) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

On 11 November 2018, Harbin Boiler Preheater Company Limited (哈爾濱鍋爐廠預熱器有限責任公司) the subsidiary of Harbin Boiler Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201823000093) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

7. *Harbin Electric Power Equipment Company Limited*

On 24 November 2017, Harbin Electric Power Equipment Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201723000424) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

8. *Harbin Electric Corporation (QHD) Heavy Equipment Company Limited*

Harbin Electric Corporation (QHD) Heavy Equipment Company Limited received High and New Technology Enterprises Certificate (高新技術企業證書) jointly issued by Hebei Provincial Department of Science and Technology, Department of Finance of Hebei Province, Hebei Provincial State Taxation Bureau, and Hebei Provincial Local Taxation Bureau on 2 November 2016. The relevant certificate number is GR20161300235, which is effective for 3 years and entitle the company to pay Enterprise Income Tax at a rate of 15% within the period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

V. TAXATION (CONTINUED)

(II) Tax Preferences (Continued)

9. Harbin Electric International Company Limited

Harbin Electric International Company Limited was recognised as Advanced Technology Service Enterprises (技術先進型服務企業). Relevant certificate number was JF20162301100003. The company paid Enterprise Income Tax at a rate of 15% this year in accordance with Cai Shui [2009] No. 63 (財稅(2009)63號文件).

VI. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(I) Cash and bank

| Item | Closing balance | Opening balance |
|---|-------------------|-------------------|
| Cash | 7,192,181.04 | 6,045,527.87 |
| Bank deposit | 11,698,489,267.90 | 15,200,245,364.13 |
| Other currency | 837,570,251.25 | 958,947,389.47 |
| Total | 12,543,251,700.19 | 16,165,238,281.47 |
| Among: the total amount of money deposited abroad | 327,018,286.13 | 340,192,598.89 |

The details of the monetary funds that have restrictions on the use of mortgages, pledges or freezes, and that are placed overseas and whose remittances are restricted are as follows:

| Item | Closing balance | Opening balance |
|--|-----------------|-----------------|
| The bank acceptance deposit | 201,259,458.54 | 170,732,122.63 |
| The l/c deposit | | 35,000,000.00 |
| Guarantee deposit | 1,165,233.99 | 653,947.06 |
| The central bank's legal deposit reserve | 635,145,558.72 | 747,561,319.78 |
| The court frozen deposits | | 5,000,000.00 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(II) Due from banks and other financial institutions

| Item | Closing balance | Opening balance |
|---|-----------------------|-----------------|
| Call loan to other banks | 500,000,000.00 | |
| Call loan to domestic banks | 500,000,000.00 | |
| Call loan to non-bank financial institutions | 200,000,000.00 | |
| Call loan to domestic non-bank financial institutions | 200,000,000.00 | |
| Total | 700,000,000.00 | |
| Less: loan loss reserves | 100,000,000.00 | |
| The book value of loans to other banks | 600,000,000.00 | |

(III) Notes receivable and accounts receivable

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

1. Details of notes receivable

(1) Notes receivable shown as classification

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(III) Notes receivable and accounts receivable (Continued)

1. Details of notes receivable (Continued)

(2) The notes receivable that have been endorsed at the end of the period and have not yet expired at the balance sheet date

| Type | The amount has been terminated at the end of the period | The amount has not been terminated at the end of the period |
|---------------------|---|---|
| Bank acceptance | 1,756,160,895.09 | 729,407,365.00 |
| Business acceptance | 236,861,472.38 | 3,420,000.00 |
| Total | 1,993,022,367.47 | 732,827,365.00 |

2. Details of accounts receivable

The basis for the company's accounts receivable aging analysis is based on: confirm age of accounts receivable by the confirming time of project revenue on the basis of contract order. Under normal circumstances, the recovered receivables are first confirmed to the contract items, receivables attributable to a contract are used first to pay off early claims, when the early settlement of claims is completed, it is used to repay the subsequent claims, that is, according to the chronological order, the old ones will be paid off first and then the new accounts will be repaid.

(1) Net accounts receivable shown by age

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

Notes: 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(III) Notes receivable and accounts receivable (Continued)

2. Details of accounts receivable (Continued)

(2) Accounts receivable shown by classification

| Type | Closing balance | | | | | Opening balance | | | | |
|---|--------------------------|----------------|-------------------------|----------------|-------------------------|--------------------------|----------------|-------------------------|----------------|-------------------------|
| | Carrying Amount | | Bad debt Provision | | Book value | Carrying Amount | | Bad debt Provision | | Book value |
| | Amount | Percentage (%) | Amount | Percentage (%) | | Amount | Percentage (%) | Amount | Percentage (%) | |
| Accounts receivable with individual significance and accruing bad debt provision individually | 553,412,455.91 | 4.92 | 486,347,205.91 | 87.88 | 67,065,250.00 | 553,776,164.56 | 4.66 | 423,986,138.19 | 76.56 | 129,790,026.37 |
| Accounts receivable accruing bad debt provision in credit risk characteristic portfolio | 10,500,832,091.75 | 93.44 | 3,954,467,935.12 | 37.66 | 6,546,364,156.63 | 11,137,045,595.65 | 93.70 | 4,122,223,365.09 | 37.01 | 7,014,822,230.56 |
| Accounts receivable with individual insignificance but individually accruing bad debt provision | 183,927,379.38 | 1.64 | 122,610,468.82 | 66.66 | 61,316,910.56 | 195,384,697.98 | 1.64 | 116,687,250.33 | 59.72 | 78,697,447.65 |
| Total | 11,238,171,927.04 | | 4,563,425,609.85 | | 6,674,746,317.19 | 11,886,206,458.19 | | 4,662,896,753.61 | | 7,223,309,704.58 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(III) Notes receivable and accounts receivable (Continued)

2. Details of accounts receivable (Continued)

(3) Accounts receivable with individual significance and individually accruing bad debt provision at the end of year:

| Debtor | Closing balance | | | Reason (%) |
|---|-----------------------|-----------------------|------------|---|
| | Accounts receivable | Bad debt provision | Percentage | |
| National Water Conservancy Department (Merowe project) of the Republic of Sudan | 271,370,288.28 | 271,370,288.28 | 100.00 | Note 1 |
| Xinjiang Jin Hui Zhao Feng Energy Co., Ltd | 95,570,000.00 | 95,570,000.00 | 100.00 | Involved in litigation, may not be able to recover |
| Indian Lanke Project (Anuppur) | 77,889,355.63 | 77,889,355.63 | 100.00 | Involved in litigation, may not be able to recover |
| China Nuclear Engineering Co., Ltd | 70,595,000.00 | 3,529,750.00 | 5.00 | For item accounting, the company conducts the impairment test separately as the bad debt allowance from aging analysis method cannot reflect the actual situation |
| Sudan Power Dam Department (2012 Sudan Geely Phase I Fuel) | 37,987,812.00 | 37,987,812.00 | 100.00 | According to the future recyclability of judgment |
| Total | 553,412,455.91 | 486,347,205.91 | | |

Note 1: The company has signed Export buyer's credit insurance No. MSEC010056, No. LSA2004026 and No. LSA2005045 with the China Import & Export Credit Insurance Company on June 15, 2001, September 21, 2004 and December 27, 2001 for Merowe, Sudan, Geely Phase I Project and Geely Phase II Project, avoiding part of the collection risk through guarantee. At the end of December 31, 2018, the total balance of accounts receivable of the three projects was USD47,124,405.58, which was equivalent to the standard currency of CNY324,902,081.81. The Company has made a provision for bad debts of USD47,124,405.58 for overdue part of accounts receivable, which was equivalent to the standard currency of CNY323,424,220.37.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(III) Notes receivable and accounts receivable (Continued)

2. Details of accounts receivable (Continued)

(4) Accounts receivable accruing bad debt provision in credit risk characteristic portfolio

Accounts receivables accruing bad debt provision by applying aging analysis:

| Age | Closing balance | | | Opening balance | | |
|---------------------|---------------------|--------------------|----------------|---------------------|--------------------|----------------|
| | Accounts receivable | Bad debt Provision | Percentage (%) | Accounts receivable | Bad debt Provision | Percentage (%) |
| Within one year | 4,164,547,707.60 | 197,754,132.56 | 4.75 | 4,406,744,809.75 | 209,614,941.43 | 4.76 |
| One to two years | 2,091,223,697.23 | 512,422,687.69 | 24.50 | 1,825,034,756.23 | 380,758,298.83 | 20.86 |
| Two to three years | 1,011,291,538.11 | 484,229,103.95 | 47.88 | 1,249,224,915.03 | 445,798,448.81 | 35.69 |
| Three to four years | 802,848,457.94 | 525,640,567.92 | 65.47 | 973,915,556.76 | 600,431,937.21 | 61.65 |
| Four to five years | 593,043,790.37 | 423,225,754.91 | 71.37 | 618,374,889.71 | 441,509,862.41 | 71.40 |
| Over five years | 1,837,876,900.50 | 1,811,195,688.09 | 98.55 | 2,063,750,668.17 | 2,044,109,876.40 | 99.05 |
| Total | 10,500,832,091.75 | 3,954,467,935.12 | | 11,137,045,595.65 | 4,122,223,365.09 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(III) Notes receivable and accounts receivable (Continued)

2. Details of accounts receivable (Continued)

(5) Accounts receivable with individual insignificance but individually accruing bad debt provision at the end of year:

| Debtor | Closing balance | | | Reason (%) |
|---|---------------------|--------------------|------------|---|
| | Accounts receivable | Bad debt provision | Percentage | |
| Sudan state power company (Sudan Geely Phase II Project) | 27,167,830.53 | 26,083,155.92 | 96.01 | Note 1 |
| Sudan state power company (Sudan Geely Phase I Project) | 26,363,963.00 | 25,970,776.17 | 98.51 | Note 1 |
| Taiyuan Boiler Group Power Engineering Co., Ltd. | 24,820,291.00 | 1,342,788.70 | 5.41 | There is objective evidence that the receivables have been impaired. The provision for bad debts based on the aging analysis method cannot reflect the actual situation. The company conducts impairment test separately. |
| Inner Mongolia Hongyu Technologies Inc | 17,510,000.00 | 17,510,000.00 | 100.00 | Unable to take back |
| EREN Enerji Elektrik Uretim A.S. (2017 Turkey Zetas Phase III) | 17,281,971.01 | 925,422.56 | 5.35 | There is objective evidence that the receivables have been impaired. The provision for bad debts based on the aging analysis method cannot reflect the actual situation. The company conducts impairment test separately. |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(III) Notes receivable and accounts receivable (Continued)

2. Details of accounts receivable (Continued)

(5) Accounts receivable with individual insignificance but individually accruing bad debt provision at the end of year: (Continued)

| Debtor | Closing balance | | | |
|---|---------------------|--------------------|----------------|---|
| | Accounts receivable | Bad debt provision | Percentage (%) | Reason |
| Sudan dam Department thermal power company | 15,626,395.25 | 7,813,197.62 | 50.00 | According to the future recyclability of judgment |
| Erdos green photoelectric Co Ltd | 8,420,000.00 | 8,420,000.00 | 100.00 | Project suspended |
| SUN YUMIN | 7,794,033.23 | 7,794,033.23 | 100.00 | Unable to take back |
| Beijing Xingyi Century Science and Technology Co Ltd | 7,303,000.00 | 7,303,000.00 | 100.00 | Unable to take back |
| Accounts receivable of Bing Jia Sheng project | 6,265,180.82 | 6,063,248.22 | 96.78 | According to the future recyclability of judgment |
| Pakistan Guddu Power Plant (2017 Guddu Spare Parts Project) | 3,924,711.31 | 196,235.57 | 5.00 | There is objective evidence that the receivables have been impaired. The provision for bad debts based on the aging analysis method cannot reflect the actual situation. The company conducts impairment test separately. |
| Sichuan Chuanguo Environmental Engineering Co., Ltd. | 3,277,239.74 | 1,711,089.99 | 52.21 | According to the future recyclability of judgment |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(III) Notes receivable and accounts receivable (Continued)

2. Details of accounts receivable (Continued)

(5) Accounts receivable with individual insignificance but individually accruing bad debt provision at the end of year: (Continued)

| Debtor | Closing balance | | | Reason |
|--|-----------------------|-----------------------|----------------|---|
| | Accounts receivable | Bad debt provision | Percentage (%) | |
| K-Electric Limited (2018 Bing Jia Sheng spare parts project) | 1,269,692.00 | 63,484.60 | 5.00 | There is objective evidence that the receivables have been impaired. The provision for bad debts based on the aging analysis method cannot reflect the actual situation. The company conducts impairment test separately. |
| Yu Zhigang | 2,637,632.48 | 2,082,605.98 | 78.96 | According to the future recyclability of judgment |
| Liu Hongkun | 2,528,079.44 | 2,022,463.55 | 80.00 | According to the future recyclability of judgment |
| Zhao Ziqiang | 959,295.02 | 767,436.02 | 80.00 | According to the future recyclability of judgment |
| Provincial Agriculture Committee (197 corn harvesters) | 945,280.00 | 756,224.00 | 80.00 | According to the future recyclability of judgment |
| Tianjin Binhai Energy Co., Ltd. | 939,000.00 | 939,000.00 | 100.00 | unable to take back |
| Others | 8,893,784.55 | 4,846,306.69 | 54.49 | According to the future recyclability of judgment |
| Total | 183,927,379.38 | 122,610,468.82 | | |

(6) The situation of provision, return back or withdraw the bad debt provision

The bad debt provision of this year was CNY175,642,144.92, Return or recover bad debts for CNY266,333,218.77.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(III) Notes receivable and accounts receivable (Continued)

2. Details of accounts receivable (Continued)

(7) The important write-off of accounts receivable in this period

| Debtor | Nature of accounts receivable | Write-off amount | Reasons for writing off | Fulfilment of verification procedures | Is it due to a related transaction |
|---|-------------------------------|------------------|----------------------------------|---------------------------------------|------------------------------------|
| Zhejiang Toupin Import and Export Trade Co., Ltd. | quality guarantee deposit | 2,440,000.00 | Money cannot be recovered | board resolution | No |
| Xilin Thermal Power Plant | quality guarantee deposit | 2,320,434.14 | Money cannot be recovered | board resolution | No |
| Beijing Hamotor Co., Ltd. | quality guarantee deposit | 2,233,790.00 | Money cannot be recovered | board resolution | No |
| Shenyang Pump Factory Sales Company (Special Power) | quality guarantee deposit | 1,343,154.00 | Money cannot be recovered | board resolution | No |
| HZ stationed in Shenyang JS representative office Shenhai Science and Technology Achievement Promotion Center | Payment | 1,059,000.00 | Power plant removed and reformed | board resolution | No |
| Panzhuhua Sanwei Power Generation Co., Ltd. | quality guarantee deposit | 1,021,121.40 | Money cannot be recovered | board resolution | No |
| Shenyang Pump Factory Sales Corporation Distribution Office | quality guarantee deposit | 601,672.00 | Money cannot be recovered | board resolution | No |
| Panzhuhua Iron and Steel Co., Ltd. | quality guarantee deposit | 417,000.00 | Money cannot be recovered | board resolution | No |
| Others | | 13,410,464.93 | Money cannot be recovered | board resolution | No |
| Total | - | 24,846,636.47 | - | - | - |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(III) Notes receivable and accounts receivable (Continued)

2. Details of accounts receivable (Continued)

(8) The top five debtors of accounts receivable at the end of the year

| Debtor | Closing balance | | |
|--|------------------|--|--------------------|
| | Amount | Proportion of total account receivable (%) | Bad debt provision |
| 703 Research Institute of China Shipbuilding Industry Corp | 648,080,507.44 | 5.77 | 106,616,050.37 |
| Luoyang Wanzhong Jili Thermal Power Co., Ltd. | 281,294,350.00 | 2.50 | 14,064,717.50 |
| State irrigation of the Republic of the Sudan (Merowe Project) | 271,370,288.28 | 2.41 | 271,370,288.28 |
| Huaneng Lancang River Hydropower Inc. | 164,685,894.02 | 1.47 | 8,234,294.70 |
| Huadian International Material Co. Ltd. | 145,237,060.00 | 1.29 | 33,165,725.00 |
| Total | 1,510,668,099.74 | 13.44 | 433,451,075.85 |

(9) Receivables derecognized due to transfer of financial assets

No accounts receivable due to transfer of financial assets during the current period.

(10) Transfer of accounts receivable and continued involvement in the formation of assets and liabilities

The amount of assets and liabilities that have not been transferred during the current period and continue to be involved in the formation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(IV) Prepayments

1. Listed by aging

| Age | Closing balance | | | Opening balance | | |
|--------------------|-------------------------|----------------|---------------------|-------------------------|----------------|---------------------|
| | Amount | Percentage (%) | Bad debt provision | Amount | Percentage (%) | Bad debt provision |
| Less than a year | 2,381,280,356.71 | 66.14 | | 4,033,563,401.69 | 74.72 | |
| One to two years | 563,658,004.90 | 15.66 | | 746,833,483.66 | 13.83 | 279,869.02 |
| Two to three years | 315,869,144.06 | 8.77 | 279,869.02 | 357,438,347.29 | 6.62 | 279,905.13 |
| Over three years | 339,606,555.43 | 9.43 | 7,847,975.51 | 260,459,984.07 | 4.83 | 7,884,185.68 |
| Total | 3,600,414,061.10 | 100.00 | 8,127,844.53 | 5,398,295,216.71 | 100.00 | 8,443,959.83 |

Significant advance payment over 1 year

| Creditor Name | Debtor Name | Closing balance | Aging | Unliquidated Reason |
|---|--|-----------------|----------------------------------|-------------------------------------|
| Harbin Steam Turbine Works Co., Ltd. | Japan Mitsubishi, Ltd. | 165,084,997.53 | 1-2 years;2-3 years;over 3 years | The contract has not been completed |
| Harbin Electric Machinery Co., Ltd. | China Power Construction Group Beijing Survey and Design Institute Co., Ltd. | 56,923,019.00 | 2-3 years | The contract has not been completed |
| Harbin Electric Group (QHD) Heavy Equipment Co., Ltd. | Sweden S.M.T | 41,392,919.33 | 2-3 years;over 3 years | The contract has not been completed |
| Harbin Electric International Engineering Co., Ltd. | Northern Heavy Industry Group Co., Ltd. | 41,120,410.00 | 1-2 years | The contract has not been completed |
| Harbin Electric Group (QHD) Heavy Equipment Co., Ltd. | VALINOX NUCLEAIRE | 39,398,157.16 | 2-3 years;over 3 years | The contract has not been completed |
| Harbin Electric Power Equipment Co., Ltd. | Holtec International | 37,882,218.20 | 1-2 years | The contract has not been completed |
| Harbin Electric Power Equipment Co., Ltd. | Curtiss-Wright Electro | 33,464,282.39 | Over 3 years | The contract has not been completed |
| Harbin Electric Machinery Co., Ltd. | Zhongshui Northeast Survey and Design Research Co., Ltd. | 29,819,881.35 | 1-2 years | The contract has not been completed |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(IV) Prepayments (Continued)

1. Listed by aging (Continued)

| Creditor Name | Debtor Name | Closing balance | Aging | Unliquidated Reason |
|---|---|-----------------|---------------------|-------------------------------------|
| Harbin Steam Turbine Works Co., Ltd. | Greenwell Energy Research | 25,379,772.48 | Over 3 years | The contract has not been completed |
| Harbin Electric Machinery Co., Ltd. | Zhejiang Huadong Mechanical & Electrical Engineering Co., Ltd. | 22,505,407.50 | 1-2 years | The contract has not been completed |
| Harbin Electric Power Equipment Co., Ltd. | Mitsubishi Heavy Industries, Ltd. | 22,157,339.75 | 1-2 years | The contract has not been completed |
| Harbin Electric International Engineering Co., Ltd. | Henan First Thermal Power Construction Company | 16,130,218.05 | Over 3 years | The contract has not been completed |
| Harbin Boiler Factory Co., Ltd. | Henan Jiuye Construction Co., Ltd. | 15,745,666.00 | 1-2 years | The contract has not been completed |
| Harbin Electric Machinery Co., Ltd. | Heilongjiang Construction Installation Group Co., Ltd. | 15,655,131.62 | 1-2 years;2-3 years | The contract has not been completed |
| Harbin Electric International Engineering Co., Ltd. | Zhejiang Feida Environmental Protection Technology Co., Ltd. | 13,560,000.00 | 1-2 years | The contract has not been completed |
| Harbin Boiler Factory Co., Ltd. | Zhejiang Guanghan Environmental Protection Technology Co., Ltd. | 12,620,000.00 | 1-2 years | The contract has not been completed |
| Harbin Electric Power Equipment Co., Ltd. | Ultra Electronics Nuclear SE Sensors & Process Instrumentation | 12,447,638.56 | 1-2 years | The contract has not been completed |
| Harbin Steam Turbine Works Co., Ltd. | Mitsubishi Heavy Industries, Ltd. | 12,256,742.40 | Over 3 years | The contract has not been completed |
| Harbin Electric International Engineering Co., Ltd. | Shanghai Kasby Pump Co., Ltd. | 11,022,500.00 | 2-3 years | The contract has not been completed |
| Harbin Electric Machinery Co., Ltd. | Nanrui Group Co., Ltd. | 15,830,374.24 | 1-2 years | The contract has not been completed |
| Harbin Boiler Factory Co., Ltd. | Jiangsu Meikailong Steel Industry Co., Ltd. | 10,288,816.50 | 1-2 years | The contract has not been completed |
| Harbin Boiler Factory Co., Ltd. | Hong Kong Yuhai Company Limited | 9,094,774.74 | 1-2 years | The contract has not been completed |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

| Creditor Name | Debtor Name | Closing balance | Aging | Unliquidated Reason |
|---|---|-----------------|-----------|-------------------------------------|
| Harbin Electric International Engineering Co., Ltd. | Hubei Electric Power Construction First Engineering Co., Ltd. | 9,060,365.55 | 1-2 years | The contract has not been completed |
| Harbin Electric Group (QHD) | | | | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(IV) Prepayments (Continued)

1. Listed by aging (Continued)

| Creditor Name | Debtor Name | Closing balance | Aging | Unliquidated Reason |
|---|--|-----------------|----------------------------------|-------------------------------------|
| Harbin Electric International Engineering Co., Ltd. | China Electric Power Engineering Consulting Group Zhongnan Electric Power Design Institute | 5,947,500.00 | 1-2 years;2-3 years | The contract has not been completed |
| Harbin Steam Turbine Works Co., Ltd. | French TPMa company | 5,499,952.80 | Over 3 years | The contract has not been completed |
| Harbin Boiler Factory Co., Ltd. | Jiangmen Boying Welding Engineering Co., Ltd. | 5,400,000.00 | 1-2 years | The contract has not been completed |
| Harbin Electric International Engineering Co., Ltd. | Wuhu Shipyard | 4,813,328.00 | Over 3 years | The contract has not been completed |
| Harbin Electric International Engineering Co., Ltd. | Leeson International (Hong Kong) Co., Ltd. | 4,739,047.92 | 1-2 years;2-3 years;over 3 years | The contract has not been completed |
| Total | | 790,484,495.33 | | |

(V) Other receivables

| Item | Closing balance | Opening balance |
|---------------------|------------------|-----------------|
| Interest receivable | 1,378,322.24 | 3,277,397.20 |
| Dividend receivable | 28,606,172.42 | 144,453.39 |
| Other receivables | 1,240,174,808.83 | 953,565,790.29 |
| Total | 1,270,159,303.49 | 956,987,640.88 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(V) Other receivables (Continued)

1. Details of Interest receivable

(1) Classification of Interest receivable

| Item | Closing balance | Opening balance |
|-----------------|---------------------|---------------------|
| Term deposits | 197,637.31 | 2,096,712.27 |
| Bond investment | 1,180,684.93 | 1,180,684.93 |
| Total | 1,378,322.24 | 3,277,397.20 |

2. Details of Dividend receivable

| Investee | Closing balance | Opening balance |
|--|----------------------|-------------------|
| Harbin East Force Real Estate Development Co., Ltd | 144,453.39 | 144,453.39 |
| Harbin Xin Run Embellish Precision Casting Industry Co., Ltd | 38,388.88 | |
| General Electric-Ha Power Energy Service (Qinhuangdao) Co., Ltd. | 28,423,330.15 | |
| Total | 28,606,172.42 | 144,453.39 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(V) Other receivables (Continued)

3. Details of other receivables

| Type | Closing balance | | | | | Opening balance | | | | |
|---|-------------------------|----------------|-----------------------|----------------|-------------------------|-------------------------|----------------|-----------------------|----------------|-----------------------|
| | Carrying amount | | Bad debt provision | | Book value | Carrying amount | | Bad debt provision | | Book value |
| | Amount | proportion (%) | Amount | proportion (%) | | Amount | proportion (%) | Amount | proportion (%) | |
| Other receivables with individual significance and individually accruing bad debt provision | 786,652,979.71 | 52.43 | 24,510,676.92 | 3.12 | 762,142,302.79 | 553,432,092.48 | 45.78 | 24,513,082.20 | 4.43 | 528,919,010.28 |
| Other receivables accruing provision for bad debts based on credit risk characteristics portfolio | 295,444,167.53 | 19.69 | 218,020,020.29 | 73.79 | 77,424,147.24 | 260,950,334.75 | 21.58 | 204,569,695.20 | 78.39 | 56,380,639.55 |
| Other receivables without individual significance but individually accruing bad debt provision | 418,351,864.20 | 27.88 | 17,743,505.40 | 4.24 | 400,608,358.80 | 394,585,307.53 | 32.64 | 26,319,167.07 | 6.67 | 368,266,140.46 |
| Total | 1,500,449,011.44 | | 260,274,202.61 | | 1,240,174,808.83 | 1,208,967,734.76 | / | 255,401,944.47 | / | 953,565,790.29 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(V) Other receivables (Continued)

3. Details of other receivables (Continued)

(1) Other receivables with individual significance and individually accruing bad debt provision

| Debtor | Closing balance | | | Reason |
|--|-----------------------|----------------------|----------------|--|
| | Accounts receivable | Bad debt provision | Percentage (%) | |
| Harbin Electric Group Co., Ltd. | 162,095,125.59 | | | Related parties don't accrue |
| Harbin Hadian Industrial Development Corporation | 20,000,000.00 | | | – Related parties don't accrue |
| Harbin Electric Machinery Industry Electromechanical Industry Company | 10,515,676.92 | 10,515,676.92 | 100.00 | It cannot be recovered |
| Ecuador Power Transmission and Transformation Corporation TransElectric | 99,914,573.35 | | | – Advance Ecuadorian hydropower owners on-site costs |
| Ecuador's state-owned power holding company | 65,006,872.04 | | | – Advance Ecuadorian hydropower owners on-site costs |
| China Water Resources and Hydropower Engineering No. 8 Engineering Co., Ltd. | 33,987,149.29 | | | – Advance project funds |
| Jilin Province Power Transmission and Transformation Engineering Company | 29,328,435.35 | | | – Advance project funds |
| LID ENERGY HOLDINGS LTD | 25,942,841.57 | | | – Suma project guarantee deposit |
| National Power Parks Management Company (pvt.) Limited | 25,715,220.83 | | | – Advance Pakistani Bailukai project owner's customs clearance fee |
| China Water Resources and Hydropower Engineering Bureau 8 Installation Branch | 15,348,947.92 | | | – Advance project funds |
| Pakistan Federal Government Tax Office | 14,944,959.01 | | | – Pakistan Bailukai project owners withhold income tax |
| China Energy Construction Group Northeast Electric Power Third Engineering Co., Ltd. | 14,704,906.46 | | | – Disbursement of the contractor's site costs |
| Export tax rebate | 133,193,618.68 | | | – Tax refund |
| Dubai Haxiang Project Investment Company | 62,883,282.59 | | | – Related parties don't accrue |
| National Energy Administration | 59,076,370.11 | | | – National allocation of special funds is not accrued |
| Daqing Ruihao Energy Technology Co., Ltd. | 13,995,000.00 | 13,995,000.00 | 100.00 | It cannot be recovered |
| Total | 786,652,979.71 | 24,510,676.92 | | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(V) Other receivables (Continued)

3. Details of other receivables (Continued)

(2) Other receivables accruing provision for bad debts based on credit risk characteristics portfolio

Other receivables accruing bad debt provision by applying aging analysis:

| Age | Closing balance | | | Opening balance | | |
|---------------------|-------------------|--------------------|----------------|-------------------|--------------------|----------------|
| | Other receivables | Bad debt provision | Proportion (%) | Other receivables | Bad debt provision | Proportion (%) |
| Within one year | 63,476,369.59 | 3,670,209.91 | 5.78 | 49,738,479.97 | 2,486,866.91 | 5.00 |
| One to two years | 5,856,051.88 | 1,464,012.97 | 25.00 | 2,392,280.13 | 595,243.75 | 24.88 |
| Two to three years | 544,508.39 | 272,254.20 | 50.00 | 104,718.50 | 52,359.25 | 50.00 |
| Three to four years | 49,888,513.58 | 39,910,810.87 | 80.00 | 23,298,484.26 | 18,638,787.41 | 80.00 |
| Four to five years | 14,879,958.77 | 11,903,967.02 | 80.00 | 13,099,670.06 | 10,479,736.05 | 80.00 |
| Over five years | 160,798,765.32 | 160,798,765.32 | 100.00 | 172,316,701.83 | 172,316,701.83 | 100.00 |
| Total | 295,444,167.53 | 218,020,020.29 | | 260,950,334.75 | 204,569,695.20 | |

Note: At the end of the period, the balance between the 3rd and 4th year of the account balance are not correlated with the balance of the previous balance. The main reason is that the partial long-age advance payment was reclassified to other receivables.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(V) Other receivables (Continued)

3. Details of other receivables (Continued)

(3) Other receivables with individual insignificance but individually accruing bad debt:

| Other receivables (By company) | Closing balance | | | Reason |
|--|-----------------------|----------------------|----------------|---|
| | Amount | Bad debt provision | Proportion (%) | |
| Petty cash | 70,766,581.45 | 2,624,440.02 | 3.71 | According to the future recyclability of judgment |
| PT THE SECOND CONSTRUCTION ENGINEERING T | 9,964,218.86 | | | Advance project's fund |
| SIEMENS Sanayive Ticaret A.S. | 8,669,447.16 | | | Advance project's fund |
| Karachi Taxation Office | 8,282,763.84 | | | Gudu project mandatory sales tax |
| BUT BEIJING ELECTRIC POWER CONSTRUCTION COMPANY | 4,774,566.34 | | | Advance project's fund |
| China Energy Construction Group Beijing Power Construction Company | 4,553,467.28 | | | Wandan project payment |
| Siemens Pakistan Engineering Co., Ltd. | 4,454,799.50 | | | Guarantee deposit |
| Turkish Suma project owner Kolin | 4,134,557.22 | | | SOMA owners pay withholding tax |
| Daqing Longjiang Wind Power Co., Ltd. | 3,920,000.00 | 3,920,000.00 | 100.00 | Estimated uncollectible |
| Bangladesh Power Authority | 3,321,179.76 | | | Bangladesh project owner withholding tax |
| Great Leader Thermoelectric (Private) Ltd. | 3,189,681.75 | | | Bikai project withholding tax |
| Yangtze River Water Resources Commission | 2,729,489.84 | | | Advance project's fund |
| Gas engine business unit deposit | 2,696,105.38 | 2,696,105.38 | 100.00 | Estimated uncollectible |
| Bailukai project local power supply company LESCO | 2,636,902.35 | | | Bailukai project site electricity fee deposit |
| Ecuador Branch | 2,579,847.71 | | | Tax refund |
| Harbin Sanlian Industrial Development Corporation | 4,200,000.00 | | | Related parties don't accrue |
| Others | 277,478,255.76 | 8,502,960.00 | 3.06 | |
| Total | 418,351,864.20 | 17,743,505.40 | | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(V) Other receivables (Continued)

3. Details of other receivables (Continued)

(4) Bad debt provision situation of withdrawing, turn back or recovery

The bad debt provision of this year is CNY35,145,712.61, turn back and recover bad debts of CNY30,381,739.20.

(5) The top five other receivables by year-end balance of arrears

| Debtor | Nature | Closing balance | Aging | Proportion | Bad debt provision Closing balance |
|---|--|-----------------|------------------------------|------------|---------------------------------------|
| CELECT | advance project funds | 164,921,445.39 | 1 year; 1-2 years | 10.99 | |
| Harbin Electric Group Co., Ltd. | current account | 162,095,125.59 | 2-3 years | 10.80 | |
| Dubai Haxiang Project Investment Company | advance project funds | 62,883,282.59 | 1 year; 2-3 years | 4.19 | |
| National Energy Agency | National special research and development project costs allocation | 59,076,370.11 | 1 year; 1-2 years; 2-3 years | 3.94 | |
| China Water Resources and Hydropower Engineering No.8 Engineering Co., Ltd. | advance project funds | 33,987,149.29 | 1 year | 2.27 | |
| Total | / | 482,963,372.97 | | 32.19 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(VI) Inventories

1. Classification of inventory

| Item | Closing balance | | | Opening balance | | |
|---|--------------------------|--------------------------------|--------------------------|--------------------------|--------------------------------|--------------------------|
| | Book balance | Inventory impairment provision | Book value | Book balance | Inventory impairment provision | Book value |
| Raw materials | 3,437,551,118.48 | 225,293,739.00 | 3,212,257,379.48 | 3,727,697,142.78 | 247,411,966.28 | 3,480,285,176.50 |
| Goods in process | 7,061,775,611.69 | 247,641,332.74 | 6,814,134,278.95 | 8,463,181,236.95 | 293,228,903.93 | 8,169,952,333.02 |
| Finished Goods | 401,273,724.46 | 56,687,825.48 | 344,585,898.98 | 515,370,202.24 | 88,636,888.47 | 426,733,313.77 |
| Turnover materials (packages, low-value consumables, etc.) | 19,677,509.81 | – | 19,677,509.81 | 15,283,495.99 | 23,010.35 | 15,260,485.64 |
| Contract performance cost | 56,460,746.28 | | 56,460,746.28 | | | |
| Goods sold | 7,796,497.75 | | 7,796,497.75 | 7,438,035.50 | | 7,438,035.50 |
| Total | 10,984,535,208.47 | 529,622,897.22 | 10,454,912,311.25 | 12,728,970,113.46 | 629,300,769.03 | 12,099,669,344.43 |

Note:

- At the end of the accounting period, the company has performed an impairment test on the inventory that shows signs of impairment, and has accrued provisions for falling inventory prices in accordance with the requirements of the accounting standards.
- At the end of December 31, 2018, Provision for inventory impairment was CNY529,622,897.22, which represented 4.82% of the original inventory value of CNY10,984,535,208.47.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(VI) Inventories (Continued)

2. Provision for inventory impairment

| Item | Opening balance | Increase | | | Decrease | | Closing balance |
|--|-----------------------|-----------------------|--------|---------------------|-----------------------|--------|-----------------------|
| | | Provision | Others | Turn Back | Resell | Others | |
| Raw materials | 247,411,966.28 | 62,578,655.44 | | 1,678,630.00 | 83,018,252.72 | | 225,293,739.00 |
| Goods in process | 293,228,903.93 | 80,107,047.89 | | | 118,915,719.08 | | 254,420,232.74 |
| Finished Goods | 88,636,888.47 | 37,254,485.22 | | | 75,982,448.21 | | 49,908,925.48 |
| Turnover materials (packages, low-value consumables, etc.) | 23,010.35 | 1,672,924.13 | | | 1,695,934.48 | | - |
| Total | 629,300,769.03 | 181,613,112.68 | | 1,678,630.00 | 279,612,354.49 | | 529,622,897.22 |

Reason for provision for inventory impairment: At the end of the accounting period, if the inventory shows signs of impairment, the company will conduct an impairment test on the inventory and make provision for falling prices based on the amount of the inventory's book value exceeding its realizable value;

Reasons for the reversal of inventory depreciation reserve: When the factors affecting inventory depreciation have disappeared and the value of inventory has rebounded, it will be transferred back within the original provision for impairment;

Reasons for the write-off of inventory depreciation provision: refer to the derecognition of the provision for depreciation provision, while at the same time carrying forward the provision for impairment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(VII) Contractual assets and contractual liabilities

1. Details of contractual assets and contractual liabilities

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

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

2. Provision for impairment of assets in the current period

| Item | Accrual | Turn back | Resale/ Write off | Reasons |
|--------------------|----------------|--------------|----------------------|----------------------|
| Contractual assets | 478,534,302.39 | 1,050,000.00 | 259,997,054.36 | Expected credit risk |
| Total | 478,534,302.39 | 1,050,000.00 | 259,997,054.36 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(VIII) Current portion of non-current assets

| Item | Closing balance | Opening balance |
|---|-----------------|-----------------|
| Long-term receivables due within one year | | |
| Available-for-sale financial assets due within one year | | |
| Held-to-maturity investments due within one year | | |
| Debt investment due within one year | 49,955,000.00 | |
| Other debt investments due within one year | | |
| Others | | |
| Total | 49,955,000.00 | |

Note: The debt investment due within one year is the 2016 book-entry interest-bearing (three-phase) government bond, and the fair value at the end of the period is CNY49,955,000.00

(IX) Other current assets

| Item | Closing balance | Opening balance |
|-------------------------------------|-----------------|------------------|
| Bank financial products | | 2,538,636,621.75 |
| Entrust loans | 190,000,000.00 | 200,000,000.00 |
| Deductible input tax and prepay VAT | 591,645,718.79 | 270,993,438.53 |
| Others | | |
| Total | 781,645,718.79 | 3,009,630,060.28 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(X) Loans and advances issued

1. Loans and advance distributed by individual and business

| Item | Closing balance | Opening balance |
|--|-----------------|-----------------|
| Individual loan and advance | | |
| – credit card | | |
| – housing-mortgage | | |
| – others | | |
| Business loan and advance | | 497,038.49 |
| – loan | | |
| – discount | | 497,038.49 |
| – others | | |
| Total loan and advance | | 497,038.49 |
| Less: Loans impairment reserve | | 4,970.38 |
| Including: individual provision amount | | |
| Combination provision | | 4,970.38 |
| Book value of loans and advance | | 492,068.11 |

2. Loans and advance distributed by industry

| Industry | Closing balance | Proportion (%) | Opening balance | Proportion (%) |
|--|-----------------|----------------|-----------------|----------------|
| Farming and animal husbandry and fishery | | | | |
| Mining industry | | | | |
| Realty business | | | | |
| Construction industry | | | | |
| Finance and insurance industry | | | | |
| Other industries | | | 497,038.49 | 100.00 |
| Total loan and advance | | | 497,038.49 | 100.00 |
| Less: Loans impairment reserve | | | 4,970.38 | 1.00 |
| Including: individual provision | | | | |
| Combination provision | | | 4,970.38 | 1.00 |
| Book value of loans and advance | | | 492,068.11 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(X) Loans and advances issued (Continued)

3. Loan and advance distributed by area

| Area | Closing balance | Proportion (%) | Opening balance | Proportion (%) |
|---------------------------------|-----------------|----------------|-----------------|----------------|
| South China | | | | |
| North China | | | | |
| Other China | | | 497,038.49 | 100.00 |
| Total loan and advance | | | 497,038.49 | 100.00 |
| Less: loan impairment reserves | | | 4,970.38 | 1.00 |
| Including: individual provision | | | | |
| Combination provision | | | 4,970.38 | 1.00 |
| Book value of loan and advance | | | 492,068.11 | |

4. Loan and advance distributed by guarantee

| Item | Closing balance | Opening balance |
|--------------------------------|-----------------|-----------------|
| Credit loan | | 497,038.49 |
| Guarantee loan | | |
| Collateral loan | | |
| Among: mortgage loans | | |
| Pledge loan | | |
| Total loan and advance | | 497,038.49 |
| Less: loan impairment reserves | | 4,970.38 |
| Among: individual provision | | |
| Combination provision | | 4,970.38 |
| Book value of loan and advance | | 492,068.11 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(X) Loans and advances issued (Continued)

5. *Loan loss reserves*

| Items | Current period | | Last period | |
|-------|----------------|-------------|-------------|-------------|
| | Individual | Combination | Individual | Combination |
| | | | | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XI) Other debt investment

1. Details of other debt investment

| Item | Closing balance | | | Opening balance | | |
|---------------|-----------------|--------------------------------|------------|-----------------|--------------------------------|---------------|
| | Book balance | Inventory impairment provision | Book value | Book balance | Inventory impairment provision | Book value |
| National debt | | | | 49,300,000.00 | | 49,300,000.00 |
| Total | | | | 49,300,000.00 | | 49,300,000.00 |

2. Details of debt instrument

| Item | Date of purchase | Expiry date | Cost of purchase | Closing fair value | Changes in fair value | Current interest |
|--|------------------|-------------|------------------|--------------------|-----------------------|------------------|
| 2016 bookkeeping interest-rate bearing (three issues) government bonds | 2016-1-27 | 2019-1-28 | 50,000,000.00 | 49,955,000.00 | -45,000.00 | 1,180,684.93 |
| Total | | | 50,000,000.00 | 49,955,000.00 | -45,000.00 | 1,180,684.93 |

Note 1: On January 27, 2016, the Ministry of Finance issued the 2016 bookkeeping-type interest-bearing (three-phase) government bonds. The coupon rate is 2.55% per annum. Interest is calculated on January 28, 2016. The maturity date is January 28, 2019. The interest payment date is January 28 of each year. The principal is repaid on January 28, 2019 and the last interest is paid. The current balance has been reclassified to non-current assets due within one year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XII) Long term receivables

| Item | Closing balance | | | Opening balance | | |
|------------------------------------|---------------------|--------------------|---------------------|---------------------|--------------------|---------------------|
| | Book balance | Bad debt provision | Book value | Book balance | Bad debt provision | Book value |
| Financing lease payment | 3,358,126.45 | | 3,358,126.45 | 2,831,982.28 | | 2,831,982.28 |
| Among: unrealized financing income | 275,946.69 | | 275,946.69 | 233,855.62 | | 233,855.62 |
| Instalment for sale goods | | | | | | |
| Instalment for offer labor service | | | | | | |
| Others | | | | | | |
| Total | 3,358,126.45 | | 3,358,126.45 | 2,831,982.28 | | 2,831,982.28 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XIII) Long-term equity investments

| Investee | Opening balance | Changes in the current period | | | | | | | Closing balance | Provision for impairment loss | Impairment provision at the end of the year |
|--|-----------------|-------------------------------|--------------|---|---------------------------------------|----------------------|--|----------------|-----------------|-------------------------------|---|
| | | Increase | Decrease | Under the equity method to confirm the investment profit and loss | Other comprehensive income adjustment | Other equity changes | Declaration of cash dividends or profits | Others | | | |
| Investment in | | | | | | | | | | | |
| 1. 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. Associates | | | | | | | | | | | |
| General Electric – Harbin Power Services (Qinhuangdao) Company | 135,003,849.87 | | | 30,101,873.68 | | | 45,342,884.15 | 119,762,839.40 | | | |
| Huludao Binhai Hydro Power Company Limited | 51,265,399.11 | | | | | | | 51,265,399.11 | | 10,223,752.07 | |
| Harbin HE Liling Hydropower Equipment New Technology Development Co., Ltd. | 6,570,491.74 | | | 233,304.71 | | | | 6,803,796.45 | | | |
| Harbin Huitong Power Engineering Company Limited | 5,823,729.61 | | | 3,020,037.04 | | | 2,293,598.96 | 6,550,167.69 | | | |
| Heilongjiang Harbin Hydropower Development Company Limited | 3,850,222.15 | | 3,920,930.55 | 70,708.40 | | | | – | | | |
| Harbin Ruifeng New Energy Co., Ltd. | 1,638,475.76 | 6,000,000.00 | | 406,724.47 | | | 30,000.00 | 2,015,200.23 | | | |
| Subtotal | 204,152,168.24 | 6,000,000.00 | 3,920,930.55 | 33,832,648.30 | | | 47,666,483.11 | 192,397,402.88 | | 10,223,752.07 | |
| Total | 207,152,168.24 | 6,000,000.00 | 3,920,930.55 | 33,832,648.30 | | | 47,666,483.11 | 195,397,402.88 | | 13,223,752.07 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XIV) Other equity instruments investments

1. Details of other equity instruments

| Item | Closing balance | Opening balance |
|--|-----------------------|----------------------|
| Huaneng International Power Co., Ltd. <i>(note)</i> | 563,358,772.26 | |
| China United Heavy Gas Turbine Technology Co., Ltd. | 114,000,000.00 | 12,000,000.00 |
| Jiangsu Fenghai New Energy Desalination Water Co., Ltd. | 30,000,000.00 | 15,000,000.00 |
| Heilongjiang Xintian Hadian New Energy Investment Co., Ltd. | 2,000,000.00 | 2,000,000.00 |
| Beijing Full 3D Power Engineering Co., Ltd. | 400,000.00 | 400,000.00 |
| Harbin Xinrun Industrial Co., Ltd. | 695,000.00 | 695,000.00 |
| Beijing Huaqing Gas Turbine and Gasification Combined Cycle Engineering Technology Co., Ltd. | 5,500,000.00 | 5,500,000.00 |
| Harbin Power Equipment Logistics Co., Ltd. | 1,000,000.00 | 1,000,000.00 |
| Total | 716,953,772.26 | 36,595,000.00 |

Note: According to the resolution of the 14th meeting of the 8th Board of Directors of Harbin Electric, Harbin Electric participated in the non-public offering of Huaneng Power International Co., Ltd., holding 76,335,877.00 shares, accounting for 0.49% of Huaneng International's equity.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XV) Investment property

1. Investment properties measured by cost

| Item | Housing and buildings | Total |
|---|--------------------------|----------------|
| 1. Original carrying value | | |
| (1) Opening balance | 297,731,265.23 | 297,731,265.23 |
| (2) Increase in the period | 11,865,249.33 | 11,865,249.33 |
| – acquired | 7,546,012.79 | 7,546,012.79 |
| – inventory/fixed assets/transfer from construction in progress | 4,319,236.54 | 4,319,236.54 |
| (3) Decrease in the period | | |
| – Disposal | | |
| – Transfer | | |
| (4) closing balance | 309,596,514.56 | 309,596,514.56 |
| 2. Accumulated depreciation and accumulated amortisation | | |
| (1) Opening balance | 66,944,542.45 | 66,944,542.45 |
| (2) Increase in the period | 9,478,716.26 | 9,478,716.26 |
| Provision or amortization | 9,338,773.00 | 9,338,773.00 |
| – inventory/fixed assets/transfer from construction in progress | 139,943.26 | 139,943.26 |
| – other increase | | |
| (3) Decrease in the period | | |
| – Disposal | | |
| – Transfer | | |
| (4) Closing balance | 76,423,258.71 | 76,423,258.71 |
| 3. Provision for impairment | | |
| (1) Opening balance | | |
| (2) Increase in the period | | |
| (3) Decrease in the period | | |
| (4) Closing balance | | |
| 4. Carrying Value | | |
| (1) Carrying value at the end of the period | 233,173,255.85 | 233,173,255.85 |
| (2) Carrying value in the beginning of the year | 230,786,722.78 | 230,786,722.78 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XV) Investment property (Continued)

2. Investment real estate by the region and the years are as follows:

| <u>Item</u> | <u>Closing balance</u> | <u>Opening balance</u> |
|-------------|------------------------|--------------------------------|
| In China | 121,364,993.17 | 1380 0 0 k30 010 Td00 061 k/GC |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XVI) Fixed assets (Continued)

2. Details of fixed assets

| Item | Housing and buildings | Machinery and equipment | Motor vehicles | Electronic equipment | Office facilities | Others | Total |
|--|-----------------------|-------------------------|----------------|----------------------|-------------------|--------------|-------------------|
| 1. Original carrying value | | | | | | | |
| (1) Opening balance | 4,534,069,928.59 | 7,636,725,613.13 | 381,045,726.78 | 591,310,339.72 | 283,259,590.94 | 9,361,706.93 | 13,435,772,906.09 |
| (2) Increase in the period | 111,120,262.64 | 422,251,729.45 | 6,687,731.60 | 35,360,460.75 | 34,630,441.61 | | 610,050,626.05 |
| – acquired | 550.00 | 55,144,602.12 | 3,608,462.99 | 7,345,270.46 | 9,274,589.55 | | 75,373,475.12 |
| – transfer from construction in progress or other else | 111,119,712.64 | 367,107,127.33 | 2,632,541.77 | 22,936,060.70 | 25,355,852.06 | | 529,151,294.50 |
| – transfer from development expenditures | | | | | | | |
| – transfer from R&D expenditures | | | | | | | |
| – business combination | | | | | | | |
| – others | – | – | 446,726.84 | 5,079,129.59 | – | | 5,525,856.43 |
| (3) Decrease in the period | 5,987,455.67 | 115,148,672.67 | 11,289,126.63 | 20,498,976.30 | 17,938,705.64 | | 170,862,936.91 |
| – disposal or retired | 1,668,219.13 | 115,148,672.67 | 11,289,126.63 | 20,498,976.30 | 17,881,074.61 | | 166,486,069.34 |
| Roll out | 4,319,236.54 | | | | | | 4,319,236.54 |
| Other decrease | | | | | 57,631.03 | | 57,631.03 |
| (4) Closing balance | 4,639,202,735.56 | 7,943,828,669.91 | 376,444,331.75 | 606,171,824.17 | 299,951,326.91 | 9,361,706.93 | 13,874,960,595.23 |
| 2. Accumulated depreciation | | | | | | | – |
| (1) Opening balance | 1,417,499,822.57 | 5,028,958,955.08 | 316,405,948.69 | 458,081,554.78 | 198,388,315.43 | 7,199,137.47 | 7,426,533,734.02 |
| (2) Increase in the period | 142,974,309.44 | 457,182,773.67 | 19,576,032.61 | 46,659,406.30 | 25,030,506.81 | 8,953.92 | 691,431,982.75 |
| – provision | 142,974,309.44 | 457,182,773.67 | 19,576,032.61 | 46,659,406.30 | 25,030,506.81 | 8,953.92 | 691,431,982.75 |
| – others | | | | | | | |
| (3) Decrease in the period | 1,593,076.45 | 111,093,004.70 | 10,260,034.31 | 19,868,361.84 | 17,342,800.58 | | 160,157,277.88 |
| – disposal or retired | 1,453,133.19 | 111,093,004.70 | 10,260,034.31 | 19,868,361.84 | 17,342,800.58 | | 160,017,334.62 |
| – roll out | 139,943.26 | | | | | | 139,943.26 |
| Others | | | | | | | |
| (4) Closing balance | 1,558,881,055.56 | 5,375,048,724.05 | 325,721,946.99 | 484,872,599.24 | 206,076,021.66 | 7,208,091.39 | 7,957,808,438.89 |
| 3. Provision for impairment | | | | | | | |
| (1) Opening balance | 11,369,595.89 | 35,976,097.29 | 1,172,424.50 | 2,837.37 | | | 48,520,955.05 |
| (2) Increase in the period | | | | 1,897,670.88 | | | 1,897,670.88 |
| – provision | | | | | | | |
| – construction in progress | | | | | | | |
| – others | | | | 1,897,670.88 | | | 1,897,670.88 |
| (3) Decrease in the period | | 1,973,305.50 | 2,372.94 | | | | 1,975,678.44 |
| – disposal or retired | | 75,634.62 | 2,372.94 | | | | 78,007.56 |
| – others | | 1,897,670.88 | | | | | 1,897,670.88 |
| (4) Closing balance | 11,369,595.89 | 34,002,791.79 | 1,170,051.56 | 1,900,508.25 | | | 48,442,947.49 |
| 4. Carrying value | | | | | | | |
| Carrying value at the end of | | | | | | | |
| (1) the year | 3,068,952,084.11 | 2,534,777,154.07 | 49,552,333.20 | 119,398,716.68 | 93,875,305.25 | 2,153,615.54 | 5,868,709,208.85 |
| Carrying value in the | | | | | | | |
| (2) beginning of the year | 3,105,200,510.13 | 2,571,790,560.76 | 63,467,353.59 | 133,225,947.57 | 84,871,275.51 | 2,162,569.46 | 5,960,718,217.02 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XVI) Fixed assets (Continued)

3. Fixed assets without property certificates

Part of land use rights and property ownership of the Company were dealt separately. The properties were not registered with property certificates.

4. Buildings according to the area and year of analysis is as follows:

| Items | Closing balance | Opening balance |
|------------------------------|-------------------------|-------------------------|
| In China | 2,969,773,193.36 | 3,004,776,277.22 |
| Medium-term (10 to 50 years) | 2,969,773,193.36 | 3,004,776,277.22 |
| Short-term (10 years) | | |
| In Dubai | 99,178,890.75 | 100,424,232.91 |
| Medium-term (10 to 50 years) | 99,178,890.75 | 100,424,232.91 |
| Short-term (10 years) | | |
| Total | 3,068,952,084.11 | 3,105,200,510.13 |

5. Fixed assets cleanup

| Items | Closing balance | Opening balance |
|------------------------|-----------------|-------------------|
| Equipment for disposal | 205.14 | 201,003.47 |
| Total | 205.14 | 201,003.47 |

6. Other notes

For details of fixed assets that are subject to restrictions on ownership such as mortgages and pledges, see Note VI. (LXII) Assets with restricted ownership.

(XVII) Construction in process

1. Construction in progress and construction materials

| Item | Closing balance | Opening balance |
|--------------------------|-----------------------|-----------------------|
| Construction in progress | 657,712,233.72 | 860,049,881.44 |
| Construction materials | 6,374,759.13 | 3,719,461.29 |
| Total | 664,086,992.85 | 863,769,342.73 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XVII) Construction in process (Continued)

2. Construction in progress

| Items | Closing balance | | | Opening balance | | |
|--|---------------------------|--------------------------|-----------------------|---------------------------|--------------------------|-----------------------|
| | Remaining carrying amount | Provision for impairment | Carrying value | Remaining carrying amount | Provision for impairment | Carrying value |
| Nuclear power capacity building | 269,877,098.08 | | 269,877,098.08 | 447,354,691.76 | | 447,354,691.76 |
| Construction project | 150,023,516.03 | | 150,023,516.03 | 181,332,226.29 | | 181,332,226.29 |
| Key Project Four Projects | 69,953,800.02 | | 69,953,800.02 | 40,912,277.76 | | 40,912,277.76 |
| Major Special Project-Development of Alternative Materials for CAP 1400 Shielded Electric Pump (Motor) Rotor Shaft | 35,088,821.55 | | 35,088,821.55 | 35,086,357.66 | | 35,086,357.66 |
| General upgrading | 23,599,353.83 | | 23,599,353.83 | 18,113,041.24 | | 18,113,041.24 |
| Information Construction of Jiangbei Scientific Research Base | 20,509,921.48 | | 20,509,921.48 | 2,551,577.19 | | 2,551,577.19 |
| EPC project | 19,946,322.14 | | 19,946,322.14 | | | |
| Nuclear power base project | 13,709,276.81 | | 13,709,276.81 | 13,445,465.12 | | 13,445,465.12 |
| Industrial boiler company office building | 8,197,929.75 | | 8,197,929.75 | | | |
| Equipment technical improvement measures and equipment update (No. 1813) | 7,198,439.98 | | 7,198,439.98 | 17,760,396.32 | | 17,760,396.32 |
| FX-030 CAP1400 The relief valve experiment system (infrastructure) | 6,484,453.74 | | 6,484,453.74 | 5,214,776.45 | | 5,214,776.45 |
| 17-42302 two-feed automatic protection device | 2,468,686.98 | | 2,468,686.98 | | | |
| Jiangbei Research Base Underground Garage, Reporting and Stopping Project | 1,298,349.11 | | 1,298,349.11 | 1,298,349.11 | | 1,298,349.11 |
| PMS project management platform system upgrade | 11,915.08 | | 11,915.08 | 3,271,985.13 | | 3,271,985.13 |
| 4050 project | | | | 29,405,143.51 | | 29,405,143.51 |
| Harbin International Beijing Branch renovation project | | | | 11,684,618.51 | | 11,684,618.51 |
| ERP project | | | | 10,679,437.44 | | 10,679,437.44 |
| 813-16-1-1 | | | | 8,401,709.40 | | 8,401,709.40 |
| HQC-D15-2017-EQ006 CNC Gantry Milling Machine | | | | 2,051,282.07 | | 2,051,282.07 |
| Canteen | | | | 1,173,273.26 | | 1,173,273.26 |
| Desulfurization test bench | | | | 708,240.47 | | 708,240.47 |
| Others | 29,913,960.02 | 569,610.88 | 29,344,349.14 | 30,174,643.63 | 569,610.88 | 29,605,032.75 |
| Total | 658,281,844.60 | 569,610.88 | 657,712,233.72 | 860,619,492.32 | 569,610.88 | 860,049,881.44 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XVII) Construction in process (Continued)

3. Significant changes in construction in progress

| Project | Budget | Opening balance | Increase in the period | Amount transfer to fixed assets in the period | Other decreased amount in the period | Closing balance | Ratio of accumulated contribution to the construction to budget (%) | Construction process | Interest on the accumulative amount of the capitalization | Including: the amount of interest capitalization in the current period | Current interest capitalization rate (%) | Sources of funds |
|---|-------------------------|-----------------------|------------------------|---|--------------------------------------|-----------------------|---|----------------------|---|--|--|---|
| | | | | | | | | | | | | |
| Nuclear power capacity building | 913,800,000.00 | 447,354,691.76 | 47,442,244.09 | 220,539,564.66 | | 274,257,371.19 | 93.83 | 95 | 65,136,494.28 | 20,622,944.28 | 3.56 | State allocated 125.4 million yuan, self-raised 296.26 million yuan |
| Infrastructure project | 457,000,000.00 | 181,332,226.29 | | 31,308,710.26 | | 150,023,516.03 | 42.88 | 42.88 | | | | Self-raised |
| Key project four projects | 183,400,000.00 | 40,912,277.76 | 34,914,756.09 | 5,873,233.83 | | 69,953,800.02 | 89.14 | 89.14 | | | | State allocated 146.7 million yuan, self-raised 36.7 million yuan |
| Major special project-CPA1400 shielded electric pump (motor) rotor shaft replacement material development | 41,880,000.00 | 35,086,357.66 | 2,980,745.72 | 2,978,281.83 | | 35,088,821.55 | 90.90 | 90.90 | | | | Self-raises |
| 4050 project | 40,500,000.00 | 29,405,143.51 | | 29,405,143.51 | | - | 72.61 | 100 | | | | Government funding |
| General upgrading | 23,599,353.83 | 18,113,041.24 | 26,218,549.76 | 20,732,237.17 | | 23,599,353.83 | 100 | 99 | | | | Self-raises |
| Equipment technical improvement measures and equipment update (No. 1813) | 31,250,000.00 | 17,760,396.32 | 2,000,313.57 | 12,562,269.91 | | 7,198,439.98 | 67.23 | 67.23 | | | | Self-raises |
| Nuclear power base project | 768,000,000.00 | 13,445,465.12 | 263,811.69 | | | 13,709,276.81 | 2.15 | 2.15 | | | | Self-raises |
| Beijing branch decoration | 14,589,100.58 | 11,684,618.51 | 2,200,081.42 | 388,451.00 | 13,496,248.93 | - | 95.17 | 100 | | | | Self-raises |
| ERP project | 39,000,000.00 | 10,679,437.44 | 12,525,673.40 | 23,205,110.84 | | - | 67.58 | 100 | | | | Self-raises |
| 813-16-1-1 | 18,000,000.00 | 8,401,709.40 | | 8,401,709.40 | | - | 46.68 | 100 | | | | Self-raises |
| CAP1400 Safety Valve Experimental System | 8,500,000.00 | 5,214,776.45 | 7,547.17 | | | 5,222,323.62 | 61.44 | 61.44 | | | | Self-raises |
| PMS project management platform system upgrade | 4,210,000.00 | 3,271,985.13 | 806,254.70 | | 4,066,324.75 | 11,915.08 | 96.87 | 96.87 | | | | Self-raises |
| Information Construction of Jiangbei Scientific Research Base | 590,000,000.00 | 2,551,577.19 | 31,752,002.33 | 13,613,462.71 | 73,435.90 | 20,616,680.91 | 10.88 | 10.88 | | | | Self-raises |
| HQC-D15-2017-EQ006 CNC Gantry Milling Machine | 2,400,000.00 | 2,051,282.07 | | 2,051,282.07 | | - | 85.47 | 100 | | | | Self-raises |
| Jiangbei Research Base Underground Garage, Reporting and Stopping Project | | 1,298,349.11 | | | | 1,298,349.11 | | | | | | Self-raises |
| Canteen | 16,850,000.00 | 1,173,273.26 | 1,863,021.70 | 3,036,294.96 | | - | 80.99 | 100 | | | | Self-raises |
| Student Activity Center | 35,000,000.00 | 83,773.59 | 34,738,051.60 | 33,697,130.25 | | 1,124,694.94 | 99.49 | 99 | | | | Self-raises |
| Experimental Building HE-EQWS-JS2009007 | 36,942,110.28 | | 27,697,157.78 | 27,697,157.78 | | - | 74.97 | 100 | | | | Self-raises |
| EPC project | | | 19,946,322.14 | | | 19,946,322.14 | 66.49 | 66.49 | | | | Self-raises |
| Others | | 30,799,110.51 | 118,169,288.04 | 93,661,254.32 | 19,076,164.84 | 36,230,979.39 | | | | | | |
| Total | 3,224,920,564.69 | 860,619,492.32 | 363,525,821.20 | 529,151,294.50 | 36,712,174.42 | 658,281,844.60 | | | 65,136,494.28 | 20,622,944.28 | | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XVII) Construction in process (Continued)

4. *Provision for impairment of construction in progress in the current period*

| Item | Opening balance | Increase | Decrease | Closing balance | Reason |
|--------|-----------------|----------|----------|-----------------|-------------------------|
| Others | 569,610.88 | | | 569,610.88 | Idle and cannot be used |
| Total | 569,610.88 | | | 569,610.88 | |

5. *Construction materials*

| Items | Closing balance | Opening balance |
|-------------------------------------|-----------------|-----------------|
| Engineering machinery and equipment | 6,374,759.13 | 3,719,461.29 |
| Total | 6,374,759.13 | 3,719,461.29 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XVIII) Intangible assets

| Item | Software | Land use rights | Patent | Non-patented technology | Franchise | Others | Total |
|---|---------------|-----------------|---------------|----------------------------|----------------|--------------|------------------|
| 1. Original carrying value | | | | | | | |
| (1) opening balance | 61,115,654.00 | 732,718,657.25 | 22,223,425.59 | 221,535,036.33 | 323,861,418.15 | 5,558,308.09 | 1,367,012,499.41 |
| (2) Increase in the period | 21,927,254.15 | | | 6,566,100.60 | 26,014,915.99 | 369,706.02 | 54,877,976.76 |
| - acquired | 17,171,274.22 | | | 5,186,100.60 | 26,014,915.99 | 305,603.46 | 48,677,894.27 |
| - internal research and development | | | | 1,380,000.00 | | 64,102.56 | 1,444,102.56 |
| - Transfer from others | 4,755,979.93 | | | | 18,758,496.16 | | 23,514,476.09 |
| (3) Decrease in the period | | | 18,758,496.16 | | | | 18,758,496.16 |
| - disposal | | | | | | | |
| - others | | | 18,758,496.16 | | | | 18,758,496.16 |
| (4) closing balance | 83,042,908.15 | 732,718,657.25 | 3,464,929.43 | 228,101,136.93 | 368,634,830.30 | 5,928,014.11 | 1,421,890,476.17 |
| 2. accumulated amortization | | | | | | | |
| (1) opening balance | 39,966,414.79 | 246,223,562.25 | 19,008,276.49 | 184,242,643.14 | 90,508,924.16 | 4,806,560.43 | 584,756,381.26 |
| (2) Increase in the period | 4,855,174.30 | 15,305,957.31 | 1,993.44 | 10,237,272.94 | 44,258,002.68 | 237,802.62 | 74,896,203.29 |
| - Provision | 4,855,174.30 | 15,305,957.31 | 1,993.44 | 10,237,272.94 | 28,700,662.19 | 237,802.62 | 59,338,862.80 |
| - others | | | | | 15,557,340.49 | | 15,557,340.49 |
| (3) Decrease in the period | | | 15,557,340.49 | | | | 15,557,340.49 |
| - disposal | | | | | | | |
| - others | | | 15,557,340.49 | | | | 15,557,340.49 |
| (4) closing balance | 44,821,589.09 | 261,529,519.56 | 3,452,929.44 | 194,479,916.08 | 134,766,926.84 | 5,044,363.05 | 644,095,244.06 |
| 3. Provision for impairment | | | | | | | |
| (1) opening balance | 2,137,376.41 | | | 8,402,511.71 | | 90,863.26 | 10,630,751.38 |
| (2) Increase in the period | | | | | | | |
| - provision | | | | | | | |
| - others | | | | | | | |
| (3) Decrease in the period | | | | | | | |
| - disposal | | | | | | | |
| - others | | | | | | | |
| (4) closing balance | 2,137,376.41 | | | 8,402,511.71 | | 90,863.26 | 10,630,751.38 |
| (1) Carrying value at the end of the period | 36,083,942.65 | 471,189,137.69 | 11,999.99 | 25,218,709.14 | 233,867,903.46 | 792,787.80 | 767,164,480.73 |
| (2) Carrying value in the beginning of the year | 19,011,862.80 | 486,495,095.00 | 3,215,149.10 | 28,889,881.48 | 233,352,493.99 | 660,884.40 | 771,625,366.77 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XIX) Development disbursements

| Item | Opening balance | Increase | | Decrease | | Closing balance |
|--|-----------------------|----------------------------------|--------------------------------|--|----------------------------|-----------------------|
| | | Internal development expenditure | Confirmed as intangible assets | Recorded into the profits and losses of the current period | Recognized as fixed assets | |
| Key Specific Project-CAP1400 Research and manufacture of alternative materials for axis of covered electronic pump (machinery) | 231,354,185.98 | 30,789,141.87 | | 13,479,598.76 | | 248,663,729.09 |
| SAP Software Purchasing-Shanghai Today Information Technology Co., Ltd. | | 7,640,639.65 | | | | 7,640,639.65 |
| ERP Phase I Project Service Fee – Deloitte Management Consulting (Shanghai) Co., Ltd. | | 3,447,169.82 | | | | 3,447,169.82 |
| 17-33002 Industrial Big Data Application Technology Application Technology Platform (Phase I) | | 2,334,905.67 | | | | 2,334,905.67 |
| 17-12001 Semi-physical simulation test bench | | 2,205,128.21 | | | | 2,205,128.21 |
| National Engineering Laboratory of Industrial Big Data Application Technology and Construction Project of Multi-energy Complementary Simulation Laboratory | 592,901.37 | 631,898.76 | | | | 1,224,800.13 |
| Human resources system project | 1,039,614.59 | - | | | | 1,039,614.59 |
| Development of 282-180112019 narrow gap infinitely rotating TIG welding equipment (small 2G) and (Xinda 2G) | | 764,957.28 | | | | 764,957.28 |
| Development of petrochemical shut-off valves | | 1,260,155.56 | | 715,543.50 | | 544,612.06 |
| Research on the Test and Evaluation System of Ultra-supercritical Main Steam Safety Valve Test and Evaluation Technology | 418,341.03 | 102,372.13 | | 102,372.13 | | 418,341.03 |
| Archives and electronic business document information platform construction project | 68,119.66 | 103,060.35 | | | | 171,180.01 |
| Development of AP1000MSR safety valve | 1,380,000.00 | 239,852.60 | 1,380,000.00 | 239,852.60 | | - |
| Heilongjiang Provincial Power Station Valve Engineering Technology Research Center | 64,102.56 | - | 64,102.56 | | | - |
| Capitalization expenditure – other | 4,288,584.48 | 14,441,255.93 | - | 12,086,572.52 | 1,036,111.11 | 5,607,156.78 |
| Total | 239,205,849.67 | 63,960,537.83 | 1,444,102.56 | 26,623,939.51 | 1,036,111.11 | 274,062,234.32 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XX) Long-term deferred expenses

| Items | Opening balance | Increase in the period | Amortised in the period | Other decreased amount | Closing balance |
|--|----------------------|------------------------|-------------------------|------------------------|----------------------|
| Jiangbei office building decoration | 28,352,487.66 | 12,849,505.90 | 13,032,049.77 | | 28,169,943.79 |
| Improvement of the rented fixed assets | 1,341,072.28 | | 232,014.00 | | 1,109,058.28 |
| Start-up fee | 718,969.95 | | 566,634.84 | | 152,335.11 |
| Rental fee | | 47,940.00 | 16,197.72 | | 31,742.28 |
| Total | 30,412,529.89 | 12,897,445.90 | 13,846,896.33 | | 29,463,079.46 |

(XXI) Deferred tax assets and deferred tax liabilities

1. Deferred income tax assets not yet eliminated

| Item | Closing balance | | Opening balance | |
|--|----------------------------------|----------------------------|----------------------------------|----------------------------|
| | Deductible temporary differences | Deferred income tax assets | Deductible temporary differences | Deferred income tax assets |
| Impairment of assets | 2,524,558,462.32 | 402,681,885.24 | 2,288,839,814.82 | 355,361,036.47 |
| Changes in fair value of hedging instruments included in other comprehensive interests | 45,000.00 | 11,250.00 | 700,000.00 | 175,000.00 |
| Estimate liabilities | 506,767,962.00 | 76,015,194.31 | 433,726,050.43 | 65,058,907.57 |
| Dismissal welfare | 76,225,912.28 | 11,433,886.85 | 66,578,651.89 | 9,986,797.79 |
| Total | 3,107,597,336.60 | 490,142,216.40 | 2,789,844,517.14 | 430,581,741.83 |

2. Breakdown of unrecognized deferred income tax

| Items | Closing balance | Opening balance |
|---------------------------------|-------------------------|-------------------------|
| Deductible temporary difference | 4,343,180,142.33 | 4,756,702,688.95 |
| Deductible loss | 1,560,246,340.60 | 1,848,661,159.85 |
| Total | 5,903,426,482.93 | 6,605,363,848.80 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXI) Deferred tax assets and deferred tax liabilities (Continued)

3. Non-offsetting deferred income tax liabilities

| Item | Closing balance | | Opening balance | |
|--|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | Taxable temporary differences | Deferred income tax liabilities | Taxable temporary differences | Deferred income tax liabilities |
| Changes in fair value of available-for-sale financial assets included in other comprehensive interests | | | 29,448,750.79 | 7,280,974.79 |
| Total | | | 29,448,750.79 | 7,280,974.79 |

(XXII) Short-term borrowings

1. Short-term liabilities shown as classification

| Item | Closing balance | Opening balance |
|-----------------|------------------|------------------|
| Pledged loan | | |
| Mortgage loan | 15,900,000.00 | 15,900,000.00 |
| Guaranteed loan | | 330,000,000.00 |
| Credit loan | 1,557,008,534.19 | 2,737,668,542.78 |
| Total | 1,572,908,534.19 | 3,083,568,542.78 |

(XXIII) Placement from banks and other financial institutions

| Item | Closing balance | Opening balance |
|---|-----------------|-----------------|
| Funds borrowed from the bank | 300,000,000.00 | |
| Funds borrowed from the non-bank financial institutions | | |
| Total | 300,000,000.00 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXIV) Deposits and placements from other financial institutions

| Item | Closing balance | Opening balance |
|--|-------------------------|-----------------------|
| Current deposit | 1,537,676,986.58 | 632,131,884.34 |
| Fixed time deposit | 41,123,100.00 | 1,600,000.00 |
| Call deposits | 122,764,275.35 | 169,264,275.35 |
| L/G(letter of guarantee) | 252.36 | 31,590.00 |
| Other deposits (including outward remittance, should be turned in to the remittance) | | |
| Total | 1,701,564,614.29 | 803,027,749.69 |

(XXV) Notes payable and accounts payable

| Item | Closing balance | Opening balance |
|------------------|--------------------------|--------------------------|
| Notes payable | 5,836,028,015.25 | 5,479,804,293.43 |
| Accounts payable | 13,215,819,754.05 | 14,051,708,904.60 |
| Total | 19,051,847,769.30 | 19,531,513,198.03 |

1. Notes payable

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXV) Notes payable and accounts payable (Continued)

2. Accounts payable

(1) Listed as accounts payable

| Items | Closing balance | Opening balance |
|---------------|--------------------------|--------------------------|
| Within 1 year | 10,003,805,732.84 | 11,359,184,726.32 |
| 1-2 years | 1,811,999,790.23 | 1,328,277,162.52 |
| 2-3 years | 597,497,973.67 | 586,962,812.92 |
| Over 3 years | 802,516,257.31 | 777,284,202.84 |
| Total | 13,215,819,754.05 | 14,051,708,904.60 |

(2) Significant accounts payable aging for more than a year

| Item | Closing balance | Reason for outstanding or not paying back |
|---|-----------------|---|
| China First Heavy Machinery Co., Ltd. | 174,185,644.45 | The contract has not been completed |
| Howden Hua Engineering Co., Ltd. | 80,418,000.00 | The contract has not been completed |
| INNOVIA CONSULTANTS LTD | 78,410,400.00 | The contract has not been completed |
| Hangzhou Boiler Group Co., Ltd. | 48,482,399.98 | The contract has not been completed |
| Beijing Electric Power Equipment Factory Co., Ltd. | 40,319,161.93 | The contract has not been completed |
| Hangzhou Boiler Group Co., Ltd. | 29,068,515.76 | The contract has not been completed |
| Henan Jiuye Construction Co., Ltd. | 27,041,703.09 | The contract has not been completed |
| Jiangsu Yinhan Precision Steel Tube Co., Ltd. | 24,419,617.44 | The contract has not been completed |
| Nanjing Daji Iron Tower Manufacturing Co., Ltd. | 24,395,779.34 | The contract has not been completed |
| Zhejiang Bofan Power Equipment Co., Ltd. | 21,235,319.12 | The contract has not been completed |
| Shaanxi Diesel Heavy Industry Co., Ltd. | 18,876,004.00 | The contract has not been completed |
| Shanghai Westhouse High-tech Enterprise Development Co., Ltd. | 18,403,689.00 | The contract has not been completed |
| Zhejiang Zhongnan Power Equipment Co., Ltd. | 17,703,716.72 | The contract has not been completed |
| Anhui Cable Group Co., Ltd. (formerly Anhui Group Electric Co., Ltd.) | 15,785,023.20 | The contract has not been completed |
| Zhongji Construction Heavy Industry Co., Ltd. | 15,321,935.00 | The contract has not been completed |
| Wuxi Tiancheng Heavy Steel Engineering Co., Ltd. | 13,914,116.01 | The contract has not been completed |
| Wuxi Xinxin Steel Structure Engineering Co., Ltd. | 13,614,905.32 | The contract has not been completed |
| Zhejiang Feida Environmental Protection Technology Co., Ltd. | 13,608,497.80 | The contract has not been completed |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXV) Notes payable and accounts payable (Continued)

2. Accounts payable (Continued)

(2) Significant accounts payable aging for more than a year (Continued)

| Item | Closing balance | Reason for outstanding or not paying back |
|--|-----------------------|---|
| Consorcio Cointec-Nacymel | 13,101,307.19 | The contract has not been completed |
| Changzhou Xidian Transformer Co., Ltd. | 12,832,605.00 | The contract has not been completed |
| Jilin Province Power Transmission and Transformation Engineering Company | 12,752,249.39 | The contract has not been completed |
| Yili Hehua Heavy Industry (Anshan) Co., Ltd. | 12,452,132.82 | The contract has not been completed |
| Zhengzhou Dafang Heavy Industry Machinery Co., Ltd. | 12,163,330.00 | The contract has not been completed |
| Wuxi Huashen Thermal Fluid Equipment Factory Co., Ltd. | 12,059,783.28 | The contract has not been completed |
| China National Petroleum and Natural Gas Construction Co., Ltd. | 11,200,270.71 | The contract has not been completed |
| Shanghai Electric Power Station Equipment Co., Ltd. | 11,100,000.00 | The contract has not been completed |
| Shandong Taian Construction Engineering Group Co., Ltd. | 11,004,997.44 | The contract has not been completed |
| Shanghai Xinli Machine Factory Co., Ltd. | 10,607,644.51 | The contract has not been completed |
| Electricas De Medellin Ingenieria Y Servicios S.A. | 10,117,113.18 | The contract has not been completed |
| Total | 804,595,861.68 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXVI) Employee benefits payable

1. Listed salary payable

| Items | Opening balance | Increase | Decrease | Closing balance |
|------------------------------------|-----------------------|-------------------------|-------------------------|-----------------------|
| Short term compensation | 280,737,082.11 | 2,325,357,908.92 | 2,357,695,024.49 | 248,399,966.54 |
| Retirement benefit-Established | | | | |
| Withdrawal and Deposit Scheme | - | 405,083,233.59 | 405,083,233.59 | - |
| Termination benefits | 38,978,832.05 | 55,483,336.30 | 46,655,747.10 | 47,806,421.25 |
| Other benefits due within one year | | - | - | - |
| Others | | 20,328,382.77 | 20,328,032.77 | 350.00 |
| Total | 319,715,914.16 | 2,806,252,861.58 | 2,829,762,037.95 | 296,206,737.79 |

2. Short-term Remuneration

| Item | Opening balance | Increase | Decrease | Closing balance |
|--|-----------------------|-------------------------|-------------------------|-----------------------|
| (1) Salary, inducement, allowance, and subsidies | 91,949,227.59 | 1,667,980,232.96 | 1,712,380,224.27 | 47,549,236.28 |
| (2) Employee benefits fee | - | 190,050,537.88 | 190,029,896.88 | 20,641.00 |
| (3) Social insurance fee | -2,268,071.29 | 147,601,619.72 | 147,890,417.75 | -2,556,869.32 |
| Of which: medical insurance fee | -2,266,923.86 | 124,824,005.22 | 125,113,950.68 | -2,556,869.32 |
| Work injury insurance fee | -1,147.43 | 13,915,845.95 | 13,914,698.52 | - |
| Maternity insurance fee | - | 8,861,768.55 | 8,861,768.55 | - |
| Others | | | | |
| (4) Housing provident fund | 93,720.00 | 174,866,032.97 | 174,829,792.97 | 129,960.00 |
| (5) Staff Union fee and Staff training cost | 190,962,132.81 | 57,169,437.36 | 44,874,644.59 | 203,256,925.58 |
| (6) Short-term paid leave | | | | |
| (7) Short-term profit sharing plan | | | | |
| (8) Other short-term Remuneration | 73.00 | 87,690,048.03 | 87,690,048.03 | 73.00 |
| Total | 280,737,082.11 | 2,325,357,908.92 | 2,357,695,024.49 | 248,399,966.54 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXVI) Employee benefits payable (Continued)

3. Established Withdrawal and Deposit Scheme

| Item | Opening balance | Increase | Decrease | Closing balance |
|----------------------------|-----------------|----------------|----------------|-----------------|
| Basic retirement Insurance | | 332,990,376.12 | 332,990,376.12 | |
| Unemployment insurance fee | | 9,578,456.86 | 9,578,456.86 | |
| Corporate annuity | | 62,514,400.61 | 62,514,400.61 | |
| Total | | 405,083,233.59 | 405,083,233.59 | |

(XXVII) Taxes and surcharges payable

| Item | Closing balance | Opening balance |
|--|-----------------|-----------------|
| VAT | 310,087,172.65 | 140,541,678.44 |
| Business tax | 76,081.15 | 76,081.15 |
| Enterprise income tax | 2,123,722.13 | 38,661,221.39 |
| Individual income tax | 17,852,719.32 | 20,126,038.31 |
| Urban maintenance and construction tax | 21,559,872.23 | 18,096,722.54 |
| Property Tax | 3,015,942.09 | 2,747,772.58 |
| Educational Surtax | 15,414,905.66 | 12,926,156.31 |
| Land use tax | 1,869,130.30 | 2,354,056.33 |
| Others | 2,043,958.26 | 4,913,222.47 |
| Total | 374,043,503.79 | 240,442,949.52 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXVIII) Other payables

| Item | Closing balance | Opening balance |
|------------------|-----------------------|-----------------------|
| Interest payable | 5,447,152.31 | 125,099,549.75 |
| Dividend payable | 3,573,003.94 | 3,569,638.20 |
| Other payables | 273,191,841.18 | 277,646,983.05 |
| Total | 282,211,997.43 | 406,316,171.00 |

1. Interest payable

| Item | Closing balance | Opening balance |
|---|---------------------|-----------------------|
| Interest for long-term borrowings | | |
| Interest of corporate bond | | 120,866,666.66 |
| Interest payable of short-term borrowings | 184,875.00 | |
| Interest payable of deposits | 5,262,277.31 | 4,232,883.09 |
| Total | 5,447,152.31 | 125,099,549.75 |

2. Dividends payable

| Item | Closing balance | Opening balance |
|------------------------|---------------------|---------------------|
| Common stock dividends | 3,573,003.94 | 3,569,638.20 |
| Total | 3,573,003.94 | 3,569,638.20 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXVIII) Other payables (Continued)

2. Dividends payable (Continued)

Important dividends payable for more than one year:

| Company name | Closing balance | Opening balance | Reasons for not paying over 1 year |
|---|---------------------|---------------------|------------------------------------|
| Employee stock holding committee | 2,767,274.60 | 2,767,274.60 | Has not got yet |
| Harbin Development Zone Infrastructure Development Co., Ltd | 297,135.61 | 297,135.61 | Has not got yet |
| New Capital of Atlantis Peak Industry & Trade Co., Ltd | 217,506.73 | 217,506.73 | Has not got yet |
| Harbin Huanya Micro-arc Technology Co., Ltd | 150,471.74 | 150,471.74 | Has not got yet |
| H shares unclaimed dividends | 95,893.91 | 90,621.70 | Has not got yet |
| Total | 3,528,282.59 | 3,523,010.38 | - |

3. Other payables

(1) Other payable shown as age

| Items | Closing balance | Opening balance |
|-----------------|-----------------------|-----------------------|
| Within one year | 171,010,251.61 | 190,556,798.03 |
| 1-2 years | 22,028,670.48 | 26,684,096.20 |
| 2-3 years | 20,864,766.48 | 11,932,973.46 |
| Over 3 years | 59,288,152.61 | 48,473,115.36 |
| Total | 273,191,841.18 | 277,646,983.05 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXVIII) Other payables (Continued)

3. Other payables (Continued)

(2) Significant other payables aged over 1 year

| Creditors | Amount owed | Age | Reasons for |
|---|---------------|--------------|-----------------|
| Zouping Qixing Development Zone Thermal Power Co., Ltd. | 8,700,000.00 | 2-3 years | Not settled yet |
| Harbin environmental hydrogen production company | 6,818,750.00 | over 3 years | Not settled yet |
| Upper Atbara Project Owner | 5,765,200.00 | 1-2 years | Not settled yet |
| Total | 21,283,950.00 | | |

(XXIX) Current portion of non-current liabilities

| Items | Closing balance | Opening balance |
|--|-----------------|------------------|
| Long-term borrowings due within one year | 200,000,000.00 | |
| Bonds payable due within one year | | 2,999,707,500.00 |
| Long-term payables within one year | | |
| Total | 200,000,000.00 | 2,999,707,500.00 |

Note: On February 18, 2013, the China Securities Regulatory Commission approved the "Securities Regulatory Commission Permission [2013] No. 159" text and approved the company to publicly issue corporate bonds with a total value of no more than CNY 4 billion to the public. On March 11, 2013, the company publicly issued Harbin Electric Co., Ltd.'s 2012 corporate bonds (the first phase) to the public, raising a total of 3 billion yuan in funds. The annual coupon rate of the bonds was 4.9%, and interest was paid on March 11 each year, interest period is from March 11, 2013 to March 11, 2018. The bonds in this period are calculated on a yearly basis for single interest, excluding compound interest. The interest is paid once a year, the principal is repaid on maturity, and the last period of interest is paid together with the redemption of the principal. This issue of bonds is provided by Harbin Power Group with full and unconditional irrevocable joint and several liability guarantees. In March 2018, the company had repaid the bond.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXX) Other current liabilities

| Items | Closing balance | Opening balance |
|----------------------------------|-----------------|-----------------|
| Financing lease accounts payable | 188,548.80 | 134,893.80 |
| Total | 188,548.80 | 134,893.80 |

(XXXI) Long-term borrowings

| Items | Closing balance | Opening balance |
|-------------|-----------------|-----------------|
| Credit loan | 300,000,000.00 | 200,000,000.00 |
| Total | 300,000,000.00 | 200,000,000.00 |

(XXXII) Long-term payables

| Items | Closing balance | Opening balance |
|-------------------|-----------------|-----------------|
| Long term payable | 1,000,000.00 | 1,000,000.00 |
| Special payable | 483,843,694.29 | 484,953,994.29 |
| Total | 484,843,694.29 | 485,953,994.29 |

1. Long term payable

| Items | Opening balance | Increase in this period | Decrease in this period | Closing balance | Reason of formation |
|-----------------------------|-----------------|-------------------------|-------------------------|-----------------|---------------------|
| Harbin Electric Corporation | 1,000,000.00 | | | 1,000,000.00 | Group funding |
| Total | 1,000,000.00 | | | 1,000,000.00 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXXII) Long-term payables (Continued)

2. Special payable

| Items | Opening balance | Increase in this period | Decrease in this period | Closing balance | Reason of formation |
|---|-----------------------|-------------------------|-------------------------|-----------------------|---------------------|
| Demotic Science and Technology Major Special Project | 380,589,200.00 | 2,799,700.00 | 1,640,000.00 | 381,748,900.00 | National funding |
| Research on Manufacturing Technology of Steam Generator Equipment | 53,590,000.00 | | | 53,590,000.00 | National funding |
| Special fund for the project "Localized production measures for the introduction of large-scale pumped storage units" | 22,420,000.00 | | | 22,420,000.00 | National funding |
| High-end CNC machine tools and basic manufacturing equipment technology projects | 5,665,000.00 | | | 5,665,000.00 | National funding |
| Others | 22,689,794.29 | | 2,270,000.00 | 20,419,794.29 | National funding |
| Total | 484,953,994.29 | 2,799,700.00 | 3,910,000.00 | 483,843,694.29 | |

(XXXIII) Long-term employee benefits payable

| Items | Closing balance | Opening balance |
|--------------------------------------|-----------------------|-----------------------|
| 1. Post-employment benefits | | |
| 2. Termination benefits | 142,308,359.65 | 141,039,180.93 |
| 3. Other long-term employee benefits | | |
| Total | 142,308,359.65 | 141,039,180.93 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXXIV) Provisions

| Items | Closing balance | Opening balance |
|---------------------------------------|-----------------------|-----------------------|
| Product quality assurance (note 1) | 116,035,464.40 | 101,605,443.95 |
| Loss contract to be executed (note 2) | 669,137,522.09 | 520,896,015.25 |
| Other (note 3) | | 8,857,323.34 |
| Total | 785,172,986.49 | 631,358,782.54 |

Note 1: The product quality assurance is the quality assurance fee of 0.3%–0.5% of the Company's sales revenue.

Note 2: The loss contract to be executed is the estimated loss incurred by the Company in respect of the estimated total cost of the contract which has not yet been executed.

Note 3: Other items are the estimated liabilities recognized by Harbin Electrical Machinery Factory Co., Ltd. in accordance with the expected employee turnover compensation.

(XXXV) Deferred income

| Items | Opening balance | Increase | Decrease | Closing balance | Reason |
|-------------------|-----------------------|----------------------|----------------------|-----------------------|----------|
| Government grants | 154,756,614.71 | 22,242,402.96 | 32,064,073.18 | 144,934,944.49 | / |
| Total | 154,756,614.71 | 22,242,402.96 | 32,064,073.18 | 144,934,944.49 | / |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXXV) Deferred income (Continued)

Items involved in government grants:

| Liabilities items | Opening balance | New addition | Accounted for as non-operating income amount | Other changes | Closing balance | Associated with the asset/related to earnings |
|---|-----------------------|----------------------|--|-----------------------|-----------------------|---|
| Grants for the technology research base and ancillary in Jiangbei | 39,104,038.89 | | 1,363,566.66 | | 37,740,472.23 | Related to an asset |
| Nuclear power main pump motor manufacturing base construction | 14,894,523.04 | 5,390,000.00 | 896,152.57 | | 19,388,370.47 | Related to an asset |
| Development of 600MW tidal power generator 820-00-1308 | 16,917,876.42 | | 10,080.10 | | 16,907,796.32 | Related to income |
| Three Gorges giant full air cooling unit 820-00-1104 | 22,500,000.00 | | 5,625,000.00 | | 16,875,000.00 | Related to income |
| Large turbine rotor welding equipment | 8,346,800.00 | | | | 8,346,800.00 | Related to income |
| Power management system and reform of power management system | 7,400,000.00 | | | | 7,400,000.00 | Related to income |
| National International Science and Technology Cooperation Project (Ministry of Finance) | 5,290,000.00 | | | | 5,290,000.00 | Related to an asset |
| Smart Manufacturing New Model 820-00-1705 | 5,000,000.00 | | 356,412.92 | | 4,643,587.08 | Related to income |
| Funding for key technology research projects for variable speed units of seawater pumped storage power stations | 4,236,600.00 | | | -712,400.00 | 3,524,200.00 | Related to income |
| Land subsidy for power station valve technical transformation project | 3,727,633.33 | | 212,133.34 | | 3,515,499.99 | Related to income |
| Others | 27,339,143.03 | 16,852,402.96 | 13,018,327.59 | -9,870,000.00 | 21,303,218.40 | |
| Total | 154,756,614.71 | 22,242,402.96 | 21,481,673.18 | -10,582,400.00 | 144,934,944.49 | |

Note: Other changes are the government subsidy that the company, as the general undertaking unit, receives the scientific research funds allocated by the government, and the co-participating units are allocated to undertake the corresponding research and development work.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXXVI) Share capital

| Shareholder's name | Opening balance | Capital increase | Scrip share | Increase(+) Decrease(-) | | Subtotal | Closing balance |
|-----------------------------|------------------|------------------|-------------|--|--|----------|------------------|
| | | | | Conversion of the accumulation funds into shares | Conversion of the undistributed profit into shares | | |
| Harbin Electric Corporation | 1,030,952,000.00 | | | | | | 1,030,952,000.00 |
| Overseas-listed shares | 675,571,000.00 | | | | | | 675,571,000.00 |
| Total | 1,706,523,000.00 | | | | | | 1,706,523,000.00 |

(XXXVII) Capital reserve

| Item | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---------------------------------|------------------|----------------------------|----------------------------|------------------|
| Capital surplus (share premium) | 3,690,197,230.17 | | 2,584,736.05 | 3,687,612,494.12 |
| Other capital surplus | | 28,125,000.00 | | 28,125,000.00 |
| Total | 3,690,197,230.17 | 28,125,000.00 | 2,584,736.05 | 3,715,737,494.12 |

Note: The reason for the decrease in capital reserve in the current period was mainly due to the proposal passed at the shareholders' meeting on December 1, 2017, that agreed to issue directly related expenses to the new domestic shares of Harbin Electric Group Co., Ltd.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXXVIII) Other comprehensive income

| Item | Opening balance | The amount incurred in current period | | | | | Closing balance |
|---|----------------------|--|---|--------------------------|---|---|----------------------|
| | | Current amount before the current income tax | Less: Earnings are included in other consolidated income/ Retained earnings | Less: income tax expense | After tax attribution to the parent company | After tax attributable to minority shareholders | |
| 1. Other comprehensive income not reclassified subsequently to profit or loss | | 63,358,777.91 | | | 63,358,777.91 | | 63,358,777.91 |
| Including: Changes in remeasurement on the net liability and net asset defined benefit scheme | | | | | | | |
| Items of other comprehensive income attributable to investees under equity method that are not reclassified to profit or loss | | | | | | | |
| Changes in fair value of other equity instruments investment | | 63,358,777.91 | | | 63,358,777.91 | | 63,358,777.91 |
| 2. Other comprehensive income to be reclassified subsequently to profit or loss | 18,514,209.22 | 4,062,591.51 | 19,791,288.72 | 41,930.65 | -15,827,771.16 | 57,143.30 | 2,686,438.06 |
| Including: Items of other comprehensive income attributable to investees under equity method that may be reclassified to profit or loss | | | | | | | |
| Profit or loss from changes in fair value of available-for-sale financial assets | -463,930.83 | 655,000.00 | | 163,750.00 | 434,106.70 | 57,143.30 | -29,824.13 |
| Profit or loss from reclassification of held-to-maturity investments as available-for-sale assets | 18,979,159.69 | | 18,979,159.69 | | -18,979,159.69 | | |
| Effective portion of the profit or loss on cash flow hedging | 690,309.68 | | 812,129.03 | -121,819.35 | -690,309.68 | | |
| Translation difference of financial statements in foreign currencies | -691,329.32 | 3,407,591.51 | | | 3,407,591.51 | | 2,716,262.19 |
| Total other comprehensive income | 18,514,209.22 | 67,421,369.42 | 19,791,288.72 | 41,930.65 | 47,531,006.75 | 57,143.30 | 66,045,215.97 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XXXIX) Specialized reserve

| Item | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---------------------------|-----------------|----------------------------|----------------------------|-----------------|
| Production safety charges | 19,377,426.96 | 23,194,591.55 | 11,759,034.73 | 30,812,983.78 |
| Total | 19,377,426.96 | 23,194,591.55 | 11,759,034.73 | 30,812,983.78 |

(XL) Surplus reserve

| Item | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---------------------------|-----------------|----------------------------|----------------------------|-----------------|
| Statutory surplus reserve | 786,529,945.86 | 22,606,703.61 | | 809,136,649.47 |
| Total | 786,529,945.86 | 22,606,703.61 | | 809,136,649.47 |

(XLI) Retained earnings

| Item | Current period | Last period |
|--|------------------|------------------|
| Balance before adjustment at the end of preceding period | 8,649,609,089.09 | 8,496,686,529.09 |
| Add: Increase due to adjustment (or less: decrease) | | |
| Opening balance after adjustment | 8,649,609,089.09 | 8,496,686,529.09 |
| Add: Net profit attributable to owners of the parent company | 71,316,651.84 | 194,226,740.00 |
| Other increase | 25,305,546.26 | |
| Less: Appropriation of statutory surplus reserve | 22,606,703.61 | |
| Appropriation of discretionary surplus reserve | | |
| Appropriation of general risk reserve | | |
| Dividend payable on ordinary shares | 25,597,845.00 | 41,304,180.00 |
| Dividend on ordinary share converted to share capital | | |
| Others | | |
| Closing balance | 8,698,026,738.58 | 8,649,609,089.09 |

Note: The Company's distribution of common stock dividends to shareholders during the year was the 2017 after-tax profit distribution plan which was reviewed and passed at the 2017 annual general meeting of the company held on May 25, 2018. Based on the company's total share capital of 1,706,523,000 at the end of 2017, the company announced the distribution of the company's 2017 final dividend of CNY 0.015 per share (including the applicable tax rate), and distributed 2017 final dividend of CNY 25,597,845.00 in total(including tax).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XLII) Operating revenue and operating cost

Details of Operating revenue and Operating cost

| Item | Current period | | Last period | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | Revenue | Cost | Revenue | Cost |
| 1. Main operating revenue | 25,673,513,488.27 | 22,523,020,468.15 | 31,345,884,860.70 | 27,104,569,528.75 |
| Main thermal power equipment | 11,877,253,493.44 | 10,207,039,797.58 | 13,871,644,397.96 | 11,571,125,295.18 |
| Main hydro power equipment | 1,704,635,327.78 | 1,553,327,987.39 | 1,146,212,806.36 | 963,884,354.15 |
| Engineering services for power stations | 7,411,068,070.00 | 7,157,640,769.57 | 10,704,840,383.96 | 10,207,510,174.17 |
| Power station auxiliary equipment and ancillary products | 899,959,203.92 | 809,714,506.28 | 1,339,075,625.77 | 1,143,869,453.69 |
| AC and DC motors and other | 2,442,054,277.61 | 1,736,512,010.42 | 2,251,536,060.95 | 1,704,961,907.44 |
| Nuclear power | 1,338,543,115.52 | 1,058,785,396.91 | 2,032,575,585.70 | 1,513,218,344.12 |
| 2. Other operation | 205,947,362.35 | 164,510,451.63 | 194,438,995.68 | 163,384,698.59 |
| Selling materials | 141,183,469.08 | 127,700,038.61 | 122,103,672.33 | 120,804,124.13 |
| Technical service fees | 11,959,643.48 | 73,540.76 | 15,291,425.41 | 1,228,080.11 |
| Others | 52,804,249.79 | 36,736,872.26 | 57,043,897.94 | 41,352,494.35 |
| Total | 25,879,460,850.62 | 22,687,530,919.78 | 31,540,323,856.38 | 27,267,954,227.34 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XLII) Operating revenue and operating cost (Continued)

Details of Operating revenue and Operating cost (Continued)

Top ten contract works with highest revenue recognized in the year are as below:

| Project Item | Contracted value | Total Cost of the project | Progress of Completion (%) | Accumulated revenue recognized | Accumulated cost recognized | Accumulated gross profit recognized | Settlement price | Revenue recognized in current period | Cost recognized in current period |
|---------------------------------|--------------------------|---------------------------|----------------------------|--------------------------------|-----------------------------|-------------------------------------|--------------------------|--------------------------------------|-----------------------------------|
| 1. Fixed-price contract | | | | | | | | | |
| Dubai Haxiang Coal Power Plant | | | | | | | | | |
| Project | 16,024,280,541.38 | 15,990,956,366.35 | 43.39 | 6,952,581,307.29 | 6,938,122,683.97 | 14,458,623.32 | 5,323,707,141.71 | 5,264,932,220.70 | 5,224,944,849.51 |
| Huadian Jurong #4 | 598,450,000.00 | 442,565,524.68 | 100.00 | 515,905,172.41 | 442,565,524.68 | 73,339,647.73 | 598,450,000.00 | 515,905,172.41 | 442,565,524.68 |
| Datang Leizhou 1# | 573,660,000.00 | 430,732,629.66 | 100.00 | 494,534,482.76 | 430,732,629.66 | 63,801,853.10 | 573,660,000.00 | 494,534,482.76 | 430,732,629.66 |
| Pakistani Lulu 1223MW | | | | | | | | | |
| Combined Cycle Project | 3,633,172,621.03 | 3,803,045,690.80 | 96.08 | 3,490,644,098.55 | 3,653,853,087.04 | -163,208,988.49 | 3,094,668,118.51 | 456,861,914.29 | 474,274,884.50 |
| Datang Leizhou 2# | 573,660,000.00 | 430,730,000.00 | 83.12 | 408,686,677.98 | 358,022,410.71 | 50,664,267.27 | 451,368,900.00 | 408,686,677.98 | 358,022,410.71 |
| Wuhu Phase II#1 | 435,110,000.00 | 311,481,119.96 | 100.00 | 372,347,480.01 | 311,481,119.96 | 60,866,360.05 | 435,110,000.00 | 372,347,480.01 | 311,481,119.96 |
| Pakistan Bikai 1180MW | | | | | | | | | |
| Combined Cycle Power Plant | | | | | | | | | |
| Project | 3,483,995,495.45 | 3,530,297,219.39 | 94.9 | 3,306,347,557.64 | 3,350,288,369.87 | -43,940,812.23 | 2,774,289,592.38 | 234,273,658.20 | 237,117,138.83 |
| Ecuador Minas hydropower | | | | | | | | | |
| project | 3,653,488,740.85 | 3,569,210,762.78 | 84.87 | 3,100,618,270.84 | 3,029,093,802.81 | 71,524,468.03 | 3,653,488,740.85 | 217,125,572.76 | 218,297,037.98 |
| China Power Investment Colorful | | | | | | | | | |
| Bay 1# | 334,745,000.00 | 231,721,800.00 | 69.75 | 201,279,859.91 | 161,626,920.13 | 39,652,939.78 | 200,635,250.00 | 201,279,859.91 | 161,626,920.13 |
| North Xilin#1 | 359,760,000.00 | 265,709,400.00 | 63.25 | 196,162,241.38 | 168,061,210.67 | 28,101,030.71 | 197,880,000.00 | 196,162,241.38 | 168,061,210.67 |
| Total | 29,670,322,398.71 | 29,006,450,513.62 | | 19,039,107,148.77 | 18,843,847,759.50 | 195,259,389.27 | 17,303,257,743.45 | 8,362,109,280.40 | 8,027,123,726.63 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XLIII) Interest income and interest expense

| Item | Current period | Last period |
|---|----------------|----------------|
| Interest income | 422,786,538.17 | 440,314,100.89 |
| Deposits in other banks | 405,729,913.62 | 426,929,921.87 |
| Deposit in central bank | 11,223,948.75 | 12,832,809.58 |
| Loans to other banks | 4,172,777.80 | 194,444.44 |
| Loans and advances paid | 1,474,198.55 | 129,816.62 |
| Including: Individual loans and advances | | |
| Company loans and advances | | |
| Discounted notes | 1,467,212.25 | 129,816.62 |
| Buy in and return to and sell the financial assets | 6,986.30 | |
| Bond investments | | |
| Others | 185,699.45 | 227,108.38 |
| Including: Impaired financial asset interest income | | |
| Interest expense | 20,736,138.63 | 24,780,211.04 |
| Deposits from other banks | | |
| Borrowings from central bank | | |
| Borrowings from other banks | | |
| Deposits taking | 20,736,138.63 | 24,780,211.04 |
| Proceeds of REPO financial assets | | |
| Issue of bonds | | |
| Others | | |
| Net interest income | 401,168,108.21 | 415,533,889.85 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XLIV) Handling charges and commission income, and handling charges and commission expenses

| Item | Current period | Last period |
|---|----------------|-------------|
| Revenue from handling charges and commission | 63,030.58 | 9,091.93 |
| Settlement and clearing fees | | |
| Agency services fees | | |
| Credit fees and commission | | |
| Bank card fees | | |
| Advisory fees | | |
| Custodian and other fiduciary service fees | | |
| Others | 63,030.58 | 9,091.93 |
| Handling charges and commission expenses | 27,263.79 | 15,292.72 |
| Handling charges | 27,263.79 | 15,292.72 |
| Commission expenses | | |
| Net handling charges and commission income | 35,766.79 | -6,200.79 |

(XLV) Taxes and surcharges

| Item | Current period | Last period |
|---------------------------------------|-----------------------|-----------------------|
| City maintenance and construction tax | 72,358,108.72 | 52,668,666.68 |
| Education surcharge | 37,354,742.20 | 27,697,758.47 |
| Local education surcharge | 14,500,164.28 | 9,982,015.83 |
| Stamp tax | 12,520,941.52 | 20,126,937.74 |
| Property tax | 41,059,101.89 | 37,861,675.67 |
| Tenure tax | 25,319,648.15 | 29,709,121.47 |
| Vehicle and vessel use tax | 87,136.80 | 68,060.42 |
| Others | 40,946.01 | 510,612.88 |
| Total | 203,240,789.57 | 178,624,849.16 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XLVI) Selling expenses

| Item | Current period | Last period |
|---------------------------|----------------|----------------|
| Salary cost | 263,792,484.72 | 199,437,711.67 |
| Quality warranty expenses | 229,446,765.75 | 228,295,986.87 |
| Traveling expenses | 97,092,202.25 | 71,646,606.53 |
| Transportation expenses | 35,019,917.90 | 49,182,240.75 |
| activity fee | 20,785,591.44 | 14,302,815.74 |
| Overseas funds | 13,659,803.47 | 26,198,056.33 |
| consulting cost | 20,093,739.06 | 15,117,553.31 |
| Insurance fees | 101,494.57 | 507,309.43 |
| Business expenses | 16,743,132.67 | 1,644,148.22 |
| Office fee | 3,470,830.90 | 2,847,602.77 |
| Promotion expenses | 354,623.35 | 1,177,655.50 |
| Advertising fee | 3,884,431.00 | 5,528,203.24 |
| Others | 26,791,108.12 | 23,490,098.52 |
| Total | 731,236,125.20 | 639,375,988.88 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XLVII) Administrative expenses

| Item | Current period | Last period |
|---|-------------------------|-------------------------|
| Salary expenses | 789,422,392.92 | 912,691,025.61 |
| Party construction activities | 17,227,024.91 | |
| Depreciation and amortization expenses | 151,454,472.32 | 156,185,688.65 |
| Maintenance expenses | 125,539,743.24 | 131,225,125.14 |
| Travelling expenses for conferences | 39,888,582.14 | 73,558,640.36 |
| Service contract fees | 40,943,234.05 | 44,800,268.99 |
| Office fees | 32,076,274.80 | 39,732,877.44 |
| Oversea fund | 25,395,351.75 | 19,297,468.58 |
| Material consumption | 8,750,990.78 | 12,270,270.49 |
| Utility charges | 12,079,776.60 | 14,108,527.82 |
| Heating fee | 18,744,051.84 | 15,482,229.12 |
| Freight expenses | 9,969,050.03 | 9,396,518.27 |
| Entertainment expenses | 16,370,855.98 | 28,137,684.13 |
| Disabled employment security fund | 13,776,452.68 | 12,733,794.34 |
| Agency costs | 4,751,285.17 | 11,297,272.97 |
| Auditor's remuneration | 2,358,490.57 | 2,358,490.57 |
| Amortization of low cost and short- lived goods | 4,347,388.20 | 3,916,929.16 |
| Consulting fee | 3,949,919.82 | 7,547,220.37 |
| Verification fee | 4,105,810.23 | 4,492,751.60 |
| Insurance fee | 5,705,010.46 | 8,333,349.96 |
| Litigation costs | 2,825,157.26 | 969,067.47 |
| Technology transfer fee | 33,677.19 | 99,321.87 |
| Board fees | 488,867.32 | 297,032.38 |
| Sewage charges | 3,146,262.12 | 3,897,940.28 |
| Others | 131,812,013.25 | 182,197,052.52 |
| Total | 1,465,162,135.63 | 1,695,026,548.09 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(XLVIII) Research and development expenses

| Item | Current period | Last period |
|-----------------------------------|----------------|----------------|
| Research and development expenses | 591,928,067.08 | 558,679,659.76 |
| Total | 591,928,067.08 | 558,679,659.76 |

(XLIX) Financial expenses

| Category | Current period | Last period |
|---------------------------|----------------|----------------|
| Interest expense | 124,294,753.28 | 241,715,596.09 |
| Less: interest income | 62,278,154.48 | 47,822,335.41 |
| Exchange gains and losses | -43,507,919.60 | 100,183,554.29 |
| Handling fee | 16,125,922.94 | 22,693,862.71 |
| Others | 1,461,622.64 | 6,018,523.17 |
| Total | 36,096,224.78 | 322,789,200.85 |

(L) Impairment on assets

| Item | Current period | Last period |
|--|----------------|------------------|
| Bad debt loss | | 496,943,368.14 |
| Inventory price loss | 179,934,482.68 | 485,214,814.27 |
| Loan impairment provision | | -92,236.44 |
| Impairment loss on available-for-sale financial assets | | 4,000,000.00 |
| Long-term equity investment impairment loss | | 1,419,804.00 |
| Fixed asset impairment loss | | 27,048,626.92 |
| Impairment loss of construction in progress | | 366,000.00 |
| Impairment loss of intangible assets | | 2,228,239.67 |
| Total | 179,934,482.68 | 1,017,128,616.56 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LI) Credit impairment losses

| Item | Current period |
|---|----------------|
| Notes receivable and bad debt losses of accounts receivable | -90,691,073.85 |
| Bad debt loss of other receivables | 4,763,973.41 |
| Advance payment impairment loss | -7,000.00 |
| Debt investment impairment loss | |
| Other debt investment impairment losses | |
| Long-term receivables bad debt loss | |
| Contract asset impairment loss | 477,484,302.39 |
| Impairment losses on loans | 99,995,029.62 |
| Total | 491,545,231.57 |

(LII) Other income

| Item | Current period | Last period |
|--------------------|----------------|---------------|
| Government subsidy | 174,777,343.70 | 45,731,908.93 |
| Total | 174,777,343.70 | 45,731,908.93 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LII) Other income (Continued)

Government subsidy included in current profit and loss

| Item | Current period | Last period | Related to assets/related to income |
|--|----------------|--------------|-------------------------------------|
| Dismissal welfare grant funds | 61,620,000.00 | | Related to income |
| Core Process Research and Engineering Application of Key Components of High Temperature Gas-Cooled Reactor | 40,529,271.91 | | Related to income |
| Military tax rebate | 21,133,864.94 | 4,832,981.66 | Related to income |
| Harbin Municipal Finance Bureau "2017 Annual Liquidity Loan Discount Policy Fund" | 8,000,000.00 | | Related to income |
| Stable subsidy | 6,253,411.44 | | Related to income |
| Development of CAP1400 Half-Speed Saturated Steam Turbine | 5,877,588.50 | | Related to income |
| Three Gorges giant full air cooling unit 820-00-1104 | 5,625,000.00 | 5,625,000.00 | Related to income |
| City-level service outsourcing development special funds | 5,000,000.00 | | Related to income |
| Provincial-level industrial transformation and upgrading special funds | 4,030,000.00 | | Related to income |
| Research project subsidy | 2,017,145.99 | 2,553,566.00 | Related to income |
| Jiangbei Scientific Research Base Project Support Fund Subsidy | 1,363,566.66 | | Related to income |
| The comprehensive utilization of resources will be refunded 70% | 1,249,946.18 | | Related to income |
| Labor Department's key discipline echelon construction fee | 1,245,218.03 | | Related to income |
| Short-term export credit insurance subsidy income | 1,106,200.00 | 1,768,865.63 | Related to income |
| Joint development of first stage high temperature moving blades for heavy duty turbine turbine | 833,928.45 | | Related to income |
| Development and application demonstration of key equipment for 700 ultra-supercritical coal-fired power generation | 799,553.65 | | Related to income |
| Zombie special hardship enterprises surplus personnel resettlement subsidies | 750,000.00 | | Related to income |
| Transfer technology three fees | 700,000.00 | | Related to income |
| Development of 1000MW High Efficiency and Wide Load Rate Ultra-Supercritical Steam Turbine | 644,620.19 | | Related to income |
| Development of localization of rotary supercritical unit valves | 600,000.00 | | Related to income |
| Tax refund fee | 508,616.08 | | Related to income |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LII) Other income (Continued)

Government subsidy included in current profit and loss (Continued)

| Item | Current period | Last period | Related to assets/related to income |
|--|----------------|-------------|-------------------------------------|
| Transfer to the Treasury of the Harbin Municipal Finance Bureau (Engineering Technology Research Center) | 500,000.00 | | Related to income |
| Transfer pot research grant | 450,000.00 | | Related to income |
| Independent design and manufacture of key equipment for conventional islands | 450,000.00 | | Related to income |
| Intelligent Manufacturing New Model 820-00-1705 | 356,412.92 | | Related to income |
| Subsidy boiler special valve development subsidy | 320,000.00 | | Related to income |
| Academician workstation national grant | 300,000.00 | | Related to income |
| Enterprise special allowance | 280,000.00 | | Related to income |
| Million kilowatt nuclear island project interest subsidy | 266,666.64 | 266,666.64 | Related to income |
| Land subsidy for power station valve technical transformation project | 212,133.34 | | Related to income |
| Transfer to China Machinery Industry Federation for research fees | 200,000.00 | | Related to income |
| Provincial-level military-civilian integration industry development special funds | 200,000.00 | | Related to income |
| International Trade Building, Harbin City Wall Materials Reform Building Energy Conservation Leading Group Office | 183,244.00 | | Related to income |
| Large-scale generator motor start-up mode, ventilation and cooling technology research project grant | 165,674.56 | 165,674.63 | Related to income |
| PDM system platform development project | 159,760.52 | 159,760.52 | Related to income |
| College student grant | 100,500.00 | | Related to income |
| Super large preheater structure accounting and optimization project research subsidy | 100,000.00 | | Related to income |
| High-level talent subsidy of Harbin Financial Treasury Payment Center | 96,750.00 | | Related to income |
| Engineering center subsidy | 69,999.97 | | Related to income |
| Provincial special funds to support scientific and technological innovation and scientific popularization in cities and counties in 2018 | 55,000.00 | | Related to income |
| Receive the subsidy for high-tech enterprises of Harbin Science and Technology Bureau | 50,000.00 | | Related to income |
| Labor Department National Government Grant | 49,105.50 | | Related to income |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LII) Other income (Continued)

Government subsidy included in current profit and loss (Continued)

| Item | Current period | Last period | Related to assets/related to income |
|--|----------------|-------------|-------------------------------------|
| 2011BAF03B03 (Yang Kaili) project grant | 45,461.45 | 45,461.46 | Related to income |
| Development of key energy-saving technical standards for marine energy generation equipment and large generators | 36,690.00 | | Related to income |
| Harbin Water Conservancy Machinery Professional Leader Echelon Construction Fund 820-00-1605 | 27,757.35 | | Related to income |
| Motor professional leader echelon construction fund 820-00-1307 | 26,320.18 | | Related to income |
| Motor professional leader echelon construction fund (city level) 820-00-1503 | 23,276.04 | | Related to income |
| Harbin Innovation Fund Plan Appropriation | 21,709.10 | | Related to income |
| Hu Yu Chegong Skill Master Studio Project Construction Fund 820-00-1703 | 20,794.09 | | Related to income |
| Research and application of key equipment and safe operation of long-distance water transfer engineering gate pump valve system 820-00-1606 | 20,779.29 | 9,216.00 | Related to income |
| Research and application of distributed photovoltaic and cascade small hydropower complementary combined power generation technology 820-00-1801 | 18,000.06 | | Related to income |
| Dispatch unemployment insurance subsidy | 17,302.93 | | Related to income |
| Heilongjiang Province Skill Master Studio subsidy 820-00-1504 | 15,359.22 | | Related to income |
| Motor Optimization Design Platform (platform software development integration and promotion application) | 14,052.48 | | Related to income |
| Development of 600MW tidal power generator 820-00-1308 | 10,080.10 | 119,094.22 | Related to income |
| Development of a life-cycle service support system project for power generation equipment based on IoT technology | 9,715.09 | 107,729.37 | Related to income |
| Cold work factory technician studio 820-00-1706 | 8,751.52 | | Related to income |
| 2018YFF0214301-HD-GB 6 items of important international standards in the field of electrical equipment | 3,503.40 | | Related to income |
| National standard development subsidy fund 820-00-1604 | 3,008.09 | | Related to income |
| 2017 special fund for science and technology talents 820-00-1701 | 1,603.84 | | Related to income |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LII) Other income (Continued)

Government subsidy included in current profit and loss (Continued)

| Item | Current period | Last period | Related to assets/related to income |
|---|----------------|---------------|-------------------------------------|
| Hebei Provincial Department of Finance dials AP1000 steam generator key manufacturing technology research fee | | 500,000.00 | Related to income |
| Transfer to CAP1400 special fund of Harbin Science and Technology Bureau | | 700,000.00 | Related to income |
| Transfer to the provincial patent technology special fund of Harbin Science and Technology Bureau in 2016 | | 8,000.00 | Related to income |
| Transfer to Harbin Financial Treasury Payment Center City Applied Technology Research Development Project Grant (Development of CAP1400 Nuclear Power Unit Main Water Supply Check Valve) | | 285,000.00 | Related to income |
| Research on Preparation Technology and Application of Cast Superalloy | | 2,986,453.00 | Related to income |
| Study on High Temperature Performance of High Temperature Alloy Materials for Gas Turbines | | 1,616,226.61 | Related to income |
| Nuclear power project subsidy fund | | 12,575,700.00 | Related to income |
| Marine Energy Integrated Technical Service Platform Construction 820-00-1401 | | 3,871.41 | Related to income |
| Development of high efficiency 660,000 kW ultra-supercritical steam turbine | | 100,000.00 | Related to income |
| Joint development of high efficiency trough solar thermal power generation technology | | 1,868,913.40 | Related to income |
| Impact generator special subsidy | | 8,100,000.00 | Related to income |
| Development of hydraulic performance of 700m water head pumped storage unit 820-00-1501 | | 442,728.38 | Related to income |
| 2017 annual municipal service outsourcing development special fund | | 800,000.00 | Related to income |
| 2016 Provincial Patent Technology Fund | | 91,000.00 | Related to income |
| Total | 174,777,343.70 | 45,731,908.93 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LIII) Investment income

| Item | Current period | Last period |
|---|----------------|----------------|
| Long-term equity investment income calculated by equity method | 33,832,648.30 | 26,360,761.31 |
| Investment income from the disposal of long-term equity investments | -408,962.33 | 25,721,172.72 |
| Investment income of trading financial assets during the holding period | 55,459,397.94 | |
| Investment income of financial assets measured at fair value through profit or loss during the holding period | | |
| Investment income from disposal of trading financial assets | 49,367,161.06 | |
| Investment income from financial assets measured at fair value through profit or loss | | |
| Interest income earned during the holding of debt investment | 1,275,000.00 | |
| Investment income of available-for-sale financial assets during the holding period | | 69,195,981.50 |
| Investment income from disposal of debt investment | | |
| Investment income from disposal of available-for-sale financial assets | | 271,077.79 |
| Interest income earned during the holding of other debt investment | | |
| Investment income from held-to-maturity investments during the holding period | | |
| Investment income from disposal of other debt investments | | |
| Dividend income earned during the period of investment in other equity instruments | 138,342.61 | |
| Investment income of other non-current financial assets during the holding period | | |
| Investment income from disposal of other non-current financial assets | | |
| After losing control, the remaining equity is re-measured at fair value | | |
| Revenue from the disposal of disposal groups that constitute the business | | |
| Foreign exchange hedging business delivery profit and loss | | -82,275.23 |
| Total | 139,663,587.58 | 121,466,718.09 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LIV) Gain on foreign exchange

| Item | Current period | Last period |
|----------------|----------------|-------------|
| Exchange gains | -4,285.22 | 496.06 |
| Total | -4,285.22 | 496.06 |

(LV) Net exposure hedging returns

| Sources of net exposure hedging gains | Current period | Last period |
|--|----------------|-------------|
| The amount of the accumulated fair value of the hedged item under the net open hedge is transferred to the current profit and loss | | |
| The amount of cash flow hedge reserve under the net open hedge is transferred to the current profit and loss | 812,129.03 | |
| Total | 812,129.03 | |

(LVI) Gain from fair-value changes

| Sources of income from changes in fair value | Current period | Last period |
|--|----------------|----------------|
| Financial assets measured at fair value through profit or loss including: gains from changes in fair value arising from derivative financial instruments | | -12,995,817.33 |
| Financial liabilities measured at fair value through profit or loss | | -12,995,817.33 |
| Investment real estate measured at fair value | | |
| Total | | -12,995,817.33 |

Note: Financial assets and financial liabilities measured at fair value through profit or loss are the forward foreign exchange settlement contracts signed by the company to avoid the risk of exchange rate fluctuations, based on the balance sheet date and forward foreign exchange on the balance sheet date. Fair value calculates the gains from changes in fair value.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LVII) Proceeds from asset disposal

| Items | Current period | Last period | Amount included in current non-recurring gains and losses |
|-------------------------------|---------------------|---------------------|---|
| Disposal of fixed assets | 2,283,473.35 | 3,627,423.23 | 2,283,473.35 |
| Disposal of intangible assets | | | |
| Total | 2,283,473.35 | 3,627,423.23 | 2,283,473.35 |

(LVIII) Non-operating income

1. Non-operating income details

| Items | Current period | Last period | Included in the amount of the non-recurring gains and losses of the current period |
|--|----------------------|----------------------|--|
| Total non-current assets retirement income | 3,598,537.20 | | 3,598,537.20 |
| including: fixed assets retirement income | 3,598,537.20 | | 3,598,537.20 |
| intangible assets retirement income | | | |
| Gains on debt restructuring | 1,620,168.00 | 325,314.71 | 1,620,168.00 |
| Gains on trading of non-cash assets | | | |
| Donation received | | | |
| Government grants | 4,876,415.01 | 50,539,789.12 | 4,876,415.01 |
| Others | 37,166,522.57 | 21,359,762.52 | 37,166,522.57 |
| Total | 47,261,642.78 | 72,224,866.35 | 47,261,642.78 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LVIII) Non-operating income (Continued)

2. Government grants recognized into profit and loss in the current period

| Items | Current period | Last period | Related to assets/ related to income |
|--|----------------|---------------|---|
| Harbin Xiangfang District Urban and Rural Construction Bureau | 960,000.00 | | Related to income |
| Receive: Import subsidy funds | 880,000.00 | | Related to income |
| Harbin Treasury Payment Center Patent Technology Special Fund | 179,000.00 | | Related to income |
| Qizan Harbin Skills Master Studio Bonus | 150,000.00 | | Related to income |
| Harbin Treasury Payment Center withholding fee | 110,289.48 | | Related to income |
| Land use tax return | 79,968.64 | | Related to income |
| Harbin Science and Technology Bureau's 2017 "Two Innovations" Policy Fund | 50,000.00 | | Related to income |
| Harbin Employment Work Leading Group Office (Laboratory Skills Master Studio) | 50,000.00 | | Related to income |
| High-tech payment | 50,000.00 | | Related to income |
| Leading talent allowance | 38,400.00 | | Related to income |
| Harbin State Taxation Bureau directly under the taxation bureau | 34,584.63 | | Related to income |
| Key enterprises introduce excellent talent subsidies | 31,150.00 | | Related to income |
| Government incentive funds | | 20,000,000.00 | Related to income |
| City financial incentive funds | | 12,060,000.00 | Related to income |
| Stable subsidy | 311,869.69 | 6,244,713.39 | Related to income |
| Industrial development fund award | | 3,283,000.00 | Related to income |
| Thousands of people plan – allowances of 2 talents for 5 years to visit relatives and live | 415,000.00 | 1,215,000.00 | Related to income |
| Harbin Municipal Market Supervision Administration Mayor Quality Award | | 1,000,000.00 | Related to income |
| Patent technology grant fund | | 677,500.00 | Related to income |
| New district construction cost subsidy | 896,152.57 | 671,569.24 | Related to income |
| Unemployment insurance subsidy | | 553,722.11 | Related to income |
| Chengdu Economic and Trade Bureau technical reform subsidy funds | | 501,200.00 | Related to income |
| Harbin Unemployment Insurance Fund Management Center | | 496,995.16 | Related to income |
| Medical expense subsidy of retired cadres in Hadian Group | | 460,000.00 | Related to income |
| Withholding personal income tax handling fee | | 443,042.56 | Related to income |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LVIII) Non-operating income (Continued)

2. Government grants recognized into profit and loss in the current period (Continued)

| Items | Current period | Last period | Related to assets/ related to income |
|--|----------------|---------------|---|
| Receive special support funds from the Ministry of Science and Technology | | 250,000.00 | Related to income |
| Enterprises recruit college graduate subsidies | | 239,880.74 | Related to income |
| Xindu District Economic and Technological Investment Promotion and Informatization Bureau added liquidity loan interest subsidy | | 213,500.00 | Related to income |
| Heilongjiang Provincial Department of Human Resources and Social Security Heilongjiang Province Leading Talent Echelon "535 Project" First Level Echelon Funding | | 200,000.00 | Related to income |
| Harbin Science and Technology Bureau deoxidizer condenser project income | | 200,000.00 | Related to income |
| Special funds for participating in international standardization activities in 2017 | | 130,000.00 | Related to income |
| Heilongjiang Province Department of Human Resources and Social Security Provincial Leading Talent Echelon Funding Fund | | 100,000.00 | Related to income |
| Technical standards for supercritical and ultra-supercritical steam turbine blades | | 100,000.00 | Related to income |
| Harbin Employment Work Leading Group Office Skill Master Studio Subsidy | | 50,000.00 | Related to income |
| Vehicle scrapping subsidy | | 43,000.00 | Related to income |
| Key enterprises in Harbin introduce special funds for outstanding talents | | 38,250.00 | Related to income |
| Qinhuangdao Science and Technology Bureau Patent Application Grant | | 30,500.00 | Related to income |
| Booth fee subsidy | | 12,000.00 | Related to income |
| Others | 640,000.00 | 1,325,915.92 | Related to income |
| Total | 4,876,415.01 | 50,539,789.12 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LIX) Non-operating expenses

| Item | Amount for this period | Amount for previous period | Including the amount of non-recurring gains and losses of the current period |
|---|------------------------|----------------------------|--|
| Total non-current asset retirement loss | 3,066,608.59 | 3,695,842.30 | 3,066,608.59 |
| Including: loss of retirement of fixed assets | 3,066,608.59 | 3,695,842.30 | 3,066,608.59 |
| Intangible asset retirement loss | | | |
| Losses from debt restructuring | 38,647,346.91 | | 38,647,346.91 |
| Non-monetary asset exchange losses | | | |
| External donation | 500,000.00 | | 500,000.00 |
| Expected loss contract | | 156,360,284.89 | |
| Others | 60,598,842.15 | 2,905,518.01 | 60,598,842.15 |
| Total | 102,812,797.65 | 162,961,645.20 | 102,812,797.65 |

(LX) Income tax

1. Details of Income tax expense in projects

| Item | Amount for this period | Amount for previous period |
|--|------------------------|----------------------------|
| Current income tax calculated according to tax law and related regulations | 113,890,721.19 | 163,258,837.00 |
| Deferred income tax adjustment | -59,724,224.57 | -80,861,025.97 |
| Total | 54,166,496.62 | 82,397,811.03 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LX) Income tax (Continued)

2. Accounting profit and income tax expense adjustment process

| Item | Amount for this period |
|---|------------------------|
| Total profit | 156,854,134.23 |
| Income tax expense at legal or applicable tax rate | 23,528,120.13 |
| Subsidiaries apply different tax rates | 15,925,333.85 |
| Adjust the impact of income tax in previous periods | 1,153,478.29 |
| The impact of non-taxable income | -20,420,104.44 |
| Non-deductible costs, expenses, and impact of loss | 47,332,548.18 |
| Impact of the use of deductible losses on the use of unrecognized deferred income tax assets in the prior period | -43,244,399.28 |
| The impact of deductible temporary differences or deductible losses on deferred income tax assets that have not been recognized in the current period | 29,162,082.87 |
| Other | 729,437.02 |
| Income tax expense | 54,166,496.62 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LXI) Cash flow statement supplementary information

1. Cash flow statement supplementary information

| Item | Amount for this period | Amount for previous period |
|--|------------------------|----------------------------|
| 1. Regulate net profit as operating activity cash flow | | |
| Net profits | 102,687,637.61 | 260,968,593.90 |
| Add: Impairment preparation of asset | 179,934,482.68 | 1,017,128,616.56 |
| Impairment losses on credit | 491,545,231.57 | |
| Depreciation of fixed assets, loss of oil and gas assets, and depreciation of productive biological assets | 700,770,755.75 | 696,372,060.51 |
| Amortization of intangible assets | 59,338,862.80 | 50,953,111.61 |
| Amortization of long-term deferred expenses | 13,846,896.33 | 12,017,505.45 |
| Disposal of fixed assets, intangible assets and other long-term assets (revenues are marked with "-") | -2,283,473.35 | -3,627,423.23 |
| Loss of scrapped fixed assets (earnings are marked with "-") | -531,928.61 | 3,695,842.30 |
| Loss of change in fair value (income is marked with a "-" sign) | | 12,995,817.33 |
| Financial expenses (revenues are marked with "-") | 93,554,407.87 | 439,256,686.96 |
| Loss of investment (earnings are marked with "-") | -139,663,587.58 | -121,466,718.09 |
| Deferred income tax assets decreased (increased by "-") | -59,724,224.57 | -80,861,025.97 |
| Deferred income tax liabilities increase (decrease by "-") | | |
| Decrease of inventory (added with "-" sign) | 1,744,434,904.99 | 579,269,657.41 |
| Reduction of operational receivables (added with "-") | 3,992,977,723.18 | -1,274,536,453.37 |
| Increase in operating payables (decrease by "-") | -7,860,180,988.23 | -4,275,691,999.21 |
| Others | 7,293,652.03 | -8,723,349.80 |
| Net cash flow from operating activities | -675,999,647.53 | -2,692,249,077.64 |
| 2. Major investment and financing activities that do not involve cash receipts and payments | | |
| Conversion of debt into capital | | |
| Convertible corporate bonds due within one year | | |
| Finance leased fixed assets | | |
| 3. Net changes in cash and cash equivalents | | |
| Closing balance of cash | 11,705,681,448.94 | 15,206,290,892.00 |
| Less: Opening balance of cash | 15,206,290,892.00 | 17,204,139,648.41 |
| Plus: closing balance of cash equivalents | | |
| Less: opening balance of cash equivalents | | |
| Net increase in cash and cash equivalents | -3,500,609,443.06 | -1,997,848,756.41 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LXI) Cash flow statement supplementary information (Continued)

2. Composition of cash and cash equivalents:

| Item | Closing balance | Opening balance |
|--|-------------------|-------------------|
| 1. Cash | 11,705,681,448.94 | 15,206,290,892.00 |
| Including: Cash | 7,192,181.04 | 6,045,527.87 |
| Bank deposits that can be used for payment at any time | 11,426,169,264.16 | 14,826,342,631.29 |
| Other currency funds that can be used to pay at any time | | |
| Central bank deposits available for payment | 50,692,260.02 | 107,027,977.01 |
| Deposits in other banks | 221,627,743.72 | 266,874,755.83 |
| Loans to other banks | | |
| 2. Cash equivalents | | |
| Including: Bond investment due within three months | | |
| 3. Cash and cash equivalents at the end of the period | 11,705,681,448.94 | 15,206,290,892.00 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LXII) Assets with limited ownership or use rights

| Item | Closing book value | Reason |
|----------------|--------------------|---|
| Monetary funds | 837,570,251.25 | Acceptance of money received, deposit of reserve deposits of the Central Bank, etc. |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

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

(LXIII) Foreign Currency Items

| Items | Closing balance | Exchange rate | Closing balance |
|-----------------------------|-------------------|---------------|-----------------|
| Cash | | | 722,756,490.94 |
| Including: USD | 100,018,947.34 | 6.8632 | 686,450,039.32 |
| EUR | 726,853.71 | 7.8473 | 5,703,839.12 |
| Pakistan Rupee | 149,836,502.72 | 0.0495 | 7,424,398.71 |
| United Arab Emirates Dirham | 12,214,529.68 | 1.8679 | 22,815,519.99 |
| Sudanese pound | 2,516,435.21 | 0.1441 | 362,693.80 |
| Accounts receivable | | | 442,839,296.91 |
| Including: USD | 63,591,390.03 | 6.8632 | 436,440,428.04 |
| EUR | 791,805.90 | 7.8473 | 6,213,538.44 |
| Sudanese pound | 1,285,856.05 | 0.1441 | 185,330.43 |
| Other receivables | | | 409,509,843.09 |
| Including: USD | 46,330,802.15 | 6.8632 | 317,977,561.32 |
| EUR | 4,000.00 | 7.8473 | 31,389.20 |
| Pakistan Rupee | 1,502,209,869.69 | 0.0495 | 74,434,498.77 |
| Dirham | 2,592,900.26 | 1.8679 | 4,843,278.40 |
| Indonesian Rupiah | 25,841,681,551.45 | 0.0005 | 12,223,115.40 |
| Accounts payable | | | 312,157,496.59 |
| Including: USD | 45,482,791.78 | 6.8632 | 312,157,496.59 |
| Other monetary | | | |
| Other payables | | | 28,450,922.11 |
| Including: USD | 4,145,431.01 | 6.8632 | 28,450,922.11 |
| Other monetary | | | |
| Absorbed deposit | | | 7,700,344.38 |
| Including: USD | 1,121,975.81 | 6.8632 | 7,700,344.38 |
| Interest payable | | | 129,688.61 |
| Including: USD | 18,896.23 | 6.8632 | 129,688.61 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

VII. CHANGE OF SCOPE

(I) Entities newly included in and no longer included in the scope of consolidation in this period

1. Entities newly included in the scope of consolidation in this period

| No. | Name | Way of forming control | Net assets at the end of the period | Current new profit |
|-----|--|---------------------------|-------------------------------------|--------------------|
| 1 | Yijun International Investment Co., Ltd. | Established by investment | | |
| 2 | Indonesian Reliable Energy Company | Established by investment | | |
| 3 | Harbin Electric Machinery Plant (Brazil) Co., Ltd. | Established by investment | 3,366,331.60 | -91,868.39 |
| 4 | Hadian Group Shanxi Environmental Protection Engineering Co., Ltd. | Established by investment | 98,000,000.00 | |

2. Entities no longer included in the scope of consolidation in this period

(1) Basic situation of original subsidiary

| No. | Name | Registration | Nature | Shareholding rate (%) | Proportion of voting rights (%) | Reason why it is no longer a subsidiary this period |
|-----|---|--------------|----------------------------|-----------------------|---------------------------------|---|
| 1 | Harbin Haguo Jinding Economic and Trade Co., Ltd. | Harbin | Wholesale and retail trade | 94.06 | 94.06 | Disposed |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

VIII. EQUITY IN OTHER ENTITIES

(I) Equity in subsidiaries

1. The composition of enterprise groups

| Name | Main operating place | Registration | Main business country | Nature | Share holding proportion (%) | | Method |
|---|----------------------|--------------|---------------------------------|------------------|------------------------------|----------|---|
| | | | | | Direct | Indirect | |
| Harbin Boiler Company Limited | Harbin | Harbin | China | Manufacturing | 92.08 | | Shareholder investment |
| Harbin Electric Machinery Co., Ltd. | Harbin | Harbin | China | Manufacturing | 89.63 | | Shareholder investment |
| Harbin Turbine Co., Ltd. | Harbin | Harbin | China | Manufacturing | 70.91 | | Shareholder investment |
| Harbin Electric International Co., Ltd. | Harbin | Harbin | Pakistan, Ecuador, Turkey, etc. | Manufacturing | 100 | | Investment |
| Harbin Power Equipment National Engineering Research Centre Co., Ltd | Harbin | Harbin | China | Service industry | 75 | | Investment |
| Harbin Power Technology & Trade Inc. (Note 1) | Harbin | Harbin | China | Export trade | 55.56 | 41.82 | Investment |
| Harbin Electric Group (Qinghuangdao) Heavy Equipment Co., Ltd. (Note 2) | Qinghuangdao | Qinghuangdao | China | Manufacturing | 34.15 | 55.45 | Investment |
| Harbin Electric Power Equipment Co., Ltd. | Harbin | Harbin | China | Manufacturing | 100 | | Investment |
| HE Harbin Power Plant Valve Co., Ltd. | Harbin | Harbin | China | Manufacturing | 100 | | Investment |
| Harbin Electric Corporation Finance Co., Ltd. (Note 3) | Harbin | Harbin | China | Finance | 55.00 | 33.16 | Business combination under the same control |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(I) Equity in subsidiaries (Continued)

1. The composition of enterprise groups (Continued)

| Name | Main operating place | Registration | Main business country | Nature | Share holding proportion (%) | | Method |
|--|----------------------|--------------|-----------------------|---|------------------------------|----------|---|
| | | | | | Direct | Indirect | |
| Chengdu Sanliya Technology Co., Ltd. (Note 4) | Chengdu | Chengdu | China | Manufacturing | 40.7 | | Liquidation |
| Shenzhen Ha Dynamic Huihua Industry & Trade Co., Ltd. (Note 5) | Shenzhen | Shenzhen | China | Trade | 60 | | Investment |
| Harbin Electric (H.E) Corporation | Harbin | Harbin | China | Other machinery and electronics wholesale | 100 | | Business combination under the same control |
| Hadian Corporation Shanxi Environmental Protection Engineering Co., Ltd. | Yuncheng | Yuncheng | China | Water, environmental and public facilities management | 51 | 45.12 | Investment |

The list of directors of the company's major subsidiaries is as follows:

Liu Zhiquan, Zhang Wei, Zhang Yanjun, Fan Xianfeng, Tian Zhenquan, Wang Qianzhuang, Che Dongguang, Xu Wei, Sun Baohong, Tao Xingming, Qu Xianwei, Li Guoqiang, Wu Hao, Zhang Zhenjiang, Wang Yue, Li Changbao, Yao Hongwei, Cheng Yue, Yu Haoyang, Zhong Weibin, Li Weidong, Li Mengqi, Zhang Jie, Jiang Qinghai, Wang Gui, Yang Qiguo, Zhang Hongtao, Gao Chao, Wang Xiaoqun, Qu Aimin, Chi Ming, Guo Yu, Wang Xiaotong, Wang Xiaohong, Zhang Liwei, Wang Shouge, Chen Jun, Gao Xuguang, Saipeng, Song Zhaoyuan, Xie Jingdong, Yang Yulong, Liu Yuqiang, Xu Ying, Liu Limin, Chen Maoyi, Wu Jun, Ding Yuda, Zhang Jingbin, Wang Yutian, Zhang Dejun, Liang Chunlin, Qiu Wen, Zou Xuesong, Sun Hongshuang and others.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(I) Equity in subsidiaries (Continued)

1. *The composition of enterprise groups (Continued)*

The proportion of shares held by a subsidiary differs from the proportion of voting rights:

1. The shareholding structure of Harbin Power Technology Trade Co., Ltd. is 55.55% held by the company. Harbin Electric International Engineering Co., Ltd., a subsidiary of the company, holds 27.77% of the shares. Harbin Electric Machinery Co., Ltd., Harbin Boiler Factory Co., Ltd. and Harbin Steam Turbine Factory Co., Ltd. holds 5.56% each, and the company holds 97.38%.
2. The shareholding structure of Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd. is 34.15% held by the company. The subsidiaries of Harbin Electric Machinery Co., Ltd., Harbin Boiler Factory Co., Ltd. and Harbin Steam Turbine Factory Co., Ltd. each hold shares. 21.95%, 89.60% of the company's merger shares.
3. The shareholding structure of Harbin Electric Group Finance Co., Ltd. is 55.00% held by the company. Harbin Electric International Engineering Co., Ltd., a subsidiary of the Company, holds 18.00% of the shares. Harbin Electric Machinery Co., Ltd., Harbin Boiler Factory Co., Ltd. and Harbin Steam Turbine Factory Co., Ltd. holds 6.00% each, and the company holds 88.16% of the shares.

The basis for holding half or less of the voting rights but still controlling the investee, and holding more than half of the voting rights but not controlling the investee:

4. The equity structure of Chengdu Sanliya Technology Co., Ltd. is 40.70% of the shares held by the company and 40.70% of the shares are entitled to voting. As the company's directors are more than half of its board members, it controls the formation of the company.
5. The shareholding structure of Shenzhen Hadong Huihua Industry & Trade Co., Ltd. is 60% of the company's shareholding, which was not included in the consolidation scope due to the liquidation and rectification.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(I) Equity in subsidiaries (Continued)

2. Important non-wholly-owned subsidiaries

| Name | Share holding of minority shareholders (%) | Gain and loss attributable to minority shareholders during the current period | Distribute dividends to minority shareholders in this period | Balance of Minority Interests at the End of the Period |
|--|--|--|--|---|
| Harbin Electric Machinery Co., Ltd. | 10.37 | 2,962,129.01 | 463,002.77 | 545,932,566.49 |
| Harbin Boiler Company Limited | 7.92 | 14,619,560.64 | 4,244,130.00 | 461,470,522.03 |
| Harbin Turbine Co., Ltd. | 29.09 | 1,498,204.66 | | 8,950,812.99 |
| Harbin Electric Corporation Finance Company Limited | 9.00 | 15,627,859.16 | 27,000,000.00 | 173,428,062.08 |

3. Major non-wholly-owned subsidiary's major financial information

| Subsidiary's name | Closing balance | | | | | |
|--|-------------------|-------------------|-------------------|---------------------|----------------------------|-------------------|
| | Current asset | Non-current asset | Total asset | Current liabilities | Non-current liabilities | Total liabilities |
| Harbin Electric Machinery Co., Ltd. | 10,016,741,264.15 | 1,731,974,128.75 | 11,748,715,392.90 | 6,187,910,897.84 | 296,266,727.54 | 6,484,177,625.38 |
| Harbin Boiler Company Limited | 16,171,678,617.49 | 1,926,171,653.20 | 18,097,850,270.69 | 11,876,201,512.78 | 360,678,289.37 | 12,236,879,802.15 |
| Harbin Turbine Co., Ltd. | 9,258,213,246.30 | 2,147,774,247.65 | 11,405,987,493.95 | 11,112,173,064.45 | 263,045,048.32 | 11,375,218,112.77 |
| Harbin Electric Corporation Finance Company Limited | 10,067,827,591.59 | 2,401,548,555.19 | 12,469,376,146.78 | 10,542,397,679.23 | | 10,542,397,679.23 |

| Subsidiary's name | Opening balance | | | | | |
|--|-------------------|-------------------|-------------------|---------------------|----------------------------|-------------------|
| | Current asset | Non-current asset | Total asset | Current liabilities | Non-current liabilities | Total liabilities |
| Harbin Electric Machinery Co., Ltd. | 10,490,823,587.40 | 1,801,738,581.52 | 12,292,562,168.92 | 6,756,004,877.38 | 297,120,641.27 | 7,053,125,518.65 |
| Harbin Boiler Company Limited | 18,749,066,406.17 | 1,883,282,508.24 | 20,632,348,914.41 | 14,599,932,353.09 | 310,304,139.72 | 14,910,236,492.81 |
| Harbin Turbine Co., Ltd. | 9,794,830,023.87 | 2,255,535,355.09 | 12,050,365,378.96 | 11,901,780,374.67 | 125,219,559.21 | 12,026,999,933.88 |
| Harbin Electric Corporation Finance Company Limited | 14,040,276,749.79 | 779,739,011.95 | 14,820,015,761.74 | 12,767,171,423.71 | 7,159,155.44 | 12,774,330,579.15 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(I) Equity in subsidiaries (Continued)

3. Major non-wholly-owned subsidiary's major financial information (Continued)

| Subsidiary's name | Amount for this period | | | |
|---|------------------------|----------------|----------------------------|-------------------------------------|
| | Operating income | Net profit | Total comprehensive income | Cash flow from operating activities |
| Harbin Electric Machinery Co., Ltd. | 3,751,901,632.19 | 28,564,407.00 | 28,564,407.00 | 898,401,430.76 |
| Harbin Boiler Company Limited | 7,044,365,518.45 | 186,520,492.48 | 186,520,492.48 | -475,981,061.89 |
| Harbin Turbine Co., Ltd. | 4,700,442,718.76 | 5,150,239.48 | 5,150,239.48 | -410,584,118.89 |
| Harbin Electric Corporation Finance Company Limited | 485,520,811.01 | 173,642,879.52 | 174,134,129.52 | -4,240,206,294.16 |

| Subsidiary's name | Amount for previous period | | | |
|---|----------------------------|----------------|----------------------------|-------------------------------------|
| | Operating income | Net profit | Total comprehensive income | Cash flow from operating activities |
| Harbin Electric Machinery Co., Ltd. | 3,546,878,139.25 | 29,662,689.14 | 29,662,689.14 | 349,981,865.72 |
| Harbin Boiler Company Limited | 8,679,103,061.65 | 298,044,238.05 | 298,044,238.05 | -820,381,815.30 |
| Harbin Turbine Co., Ltd. | 6,103,657,734.41 | 103,178,857.61 | 103,178,857.61 | -938,163,638.30 |
| Harbin Electric Corporation Finance Company Limited | 458,653,543.63 | 198,669,768.59 | 219,622,234.90 | -818,606,504.20 |

(II) Equity in joint venture arrangements or associates

1. Important associates

| Name | Main operation location | Registration | Nature | Share holding (%) | | Accounting for investments in joint ventures or associates method |
|---|-------------------------|--------------|----------------|-------------------|----------|---|
| | | | | Direct | Indirect | |
| GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd. | Qinhuangdao | Qinhuangdao | Energy service | 41 | | Equity method |
| Huludao Binhai Electric Power Co., Ltd. | Huludao | Huludao | manufacturing | 50 | | Equity method |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(II) Equity in joint venture arrangements or associates (Continued)

2. Major Financial Information of Important Joint Ventures

| Item | GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd. | |
|--|--|-----------------------|
| | Closing balance | Opening balance |
| Current assets | 335,447,251.96 | 333,786,606.36 |
| Including: cash and cash equivalents | | |
| Non-current assets | 106,858,194.16 | 104,391,019.73 |
| Total assets | 442,305,446.12 | 438,177,626.09 |
| Current liabilities | 149,146,969.12 | 107,845,951.62 |
| Non-current liabilities | | |
| Total liabilities | 149,146,969.12 | 107,845,951.62 |
| Interest of minority shareholders | | |
| Attributable to the equity of the parent company | 328,872,987.96 | 330,331,674.47 |
| Share of net assets by shareholding | 134,837,925.10 | 135,435,986.53 |
| Adjustment items | | |
| – Goodwill | | |
| – Unrealized profit of internal transaction | | |
| – Others | | |
| Book value of equity investment in joint ventures | 134,837,925.10 | 135,003,849.87 |
| The fair value of equity investment in joint ventures with open bids | | |
| Operating income | 316,413,120.97 | 282,443,110.84 |
| Financial expense | -4,291,953.56 | -1,872,687.75 |
| Income tax expense | 26,965,129.85 | 17,709,280.65 |
| Net profits | 73,419,204.01 | 59,674,236.13 |
| Discontinued operating net profit | | |
| Other comprehensive income | | |
| Total comprehensive income | 73,419,204.01 | 59,674,236.13 |
| Dividends from joint ventures received during the current year | 16,919,554.00 | 17,767,425.00 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(II) Equity in joint venture arrangements or associates (Continued)

2. Major Financial Information of Important Joint Ventures (Continued)

| Items | Huludao Binhai Electric Power Co., Ltd. | |
|--|---|-----------------------|
| | Closing balance | Opening balance |
| Current asset | 76,255,087.90 | 76,255,087.90 |
| Non-current asset | 28,557,819.81 | 28,557,819.81 |
| Total asset | 104,812,907.71 | 104,812,907.71 |
| Current liabilities | 2,282,109.49 | 2,282,109.49 |
| Non-current liabilities | | |
| Total liabilities | 2,282,109.49 | 2,282,109.49 |
| Equity of minority shareholders | | |
| Attributable to the equity of the parent company | 102,530,798.22 | 102,530,798.22 |
| Share of net assets by shareholding | 51,265,399.11 | 51,265,399.11 |
| Adjustment items | | |
| – Goodwill | | |
| – Unrealized profit from the internal transaction | | |
| – Others | | |
| Book value of equity investment in associates | 49,898,970.38 | 49,898,970.38 |
| The fair value of the equity investment of an associated company that has a public quotation | | |
| Operating income | | |
| Net profits | | |
| Discontinued operating net profit | | |
| Other comprehensive income | | |
| Total comprehensive income | | |
| Dividend from the joint venture | | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

VIII. EQUITY IN OTHER ENTITIES (CONTINUED)

(II) Equity in joint venture arrangements or associates (Continued)

3. Summary financial information of unimportant joint ventures and associates

| Items | Closing balance | Opening balance |
|--|-----------------|-----------------|
| Joint venture: | | |
| Total investment book value | 21,369,164.37 | 18,086,294.53 |
| Total amount basis on the Proportion of share hold | | |
| – Net profit | 3,730,774.62 | 1,894,324.50 |
| – Other comprehensive income | | |
| – Total comprehensive income | 3,730,774.62 | 1,894,324.50 |

IX. RELATED RISKS OF FINANCIAL INSTRUMENTS

The company faces various financial risks in the course of its operations: credit risk, market risk and liquidity risk. The board of directors of the company is fully responsible for the determination of risk management objectives and policies and bears ultimate responsibility for risk management objectives and policies. The company's internal auditors also audit the risk management policies and procedures and report the findings to the audit committee.

The overall goal of the company's risk management is to formulate a risk management policy that minimizes risks without excessively affecting the company's competitiveness and resilience.

(I) Credit risks

Credit risk refers to the risk that one party to a financial instrument fails to perform its obligations and causes financial losses to the other. The company is mainly facing customer credit risk caused by credit sales. Before the signing of the new contract, the company will evaluate the credit risk of the new customer, including the external credit rating and, in some cases, the bank credit certificate (when this information is available). The company sets a credit limit for each customer, which is the maximum amount that does not require additional approval. The company's major customers are clients at the border and have handled the export business credit insurance for the accounts receivable of the major customers.

The company ensures that the company's overall credit risk is within control of the company through quarterly monitoring of existing customer credit ratings and monthly review of accounts receivable aging analysis. When monitoring the customer's credit risk, they are grouped according to their credit characteristics. Customers rated as "high-risk" will be placed on the list of restricted customers, and the company can only sell them on the premise of additional approval, otherwise they must be required to pay in advance.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

IX. RELATED RISKS OF FINANCIAL INSTRUMENTS (CONTINUED)

(II) Market risks

The market risk of financial instruments refers to the risk that the fair value or future cash flow of financial

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

IX. RELATED RISKS OF FINANCIAL INSTRUMENTS (CONTINUED)

(III) Liquidity risk (Continued)

The analysis of the financial assets and financial liabilities held by the company based on the maturity period of the undiscounted residual contractual obligations is as follows:

| | Within 1 year |
|---|-------------------|
| Financial assets and liability: | |
| Monetary funds | 12,543,251,700.19 |
| Note receivables | 3,112,281,635.68 |
| Account receivables | 11,238,171,927.04 |
| Other receivables | 1,500,449,011.44 |
| Short-term borrowings | 1,572,908,534.19 |
| Note payables | 5,836,028,015.25 |
| Account payables | 13,215,819,754.05 |
| Wages and salaries | 296,206,737.79 |
| Other payables | 273,191,841.18 |
| Non-current liabilities due within one year | |
| Other non-current liabilities | 188,548.80 |

X. FAIR VALUE DISCLOSURE

Input values used for fair value measurement are divided into three levels:

- The first-level inputs are unadjusted quotes for the same assets or liabilities that can be obtained on the measurement date in an active market.
- The second level input value is the input value that is directly or indirectly observable for the relevant assets or liabilities except for the first level input value.
- Level 3 inputs are unobservable inputs to related assets or liabilities.

The level to which the fair value measurement results belongs is determined by the lowest level of the input value that is of importance to the fair value measurement as a whole.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

X. FAIR VALUE DISCLOSURE (CONTINUED)

(I) Closing fair value of assets and liabilities measured at fair value

| Item | Fair value at the end of period | | | Total |
|---|--------------------------------------|--------------------------------------|--------------------------------------|----------------|
| | Level 1 Fair Value Measurement | Level 2 Fair Value Measurement | Level 3 Fair Value Measurement | |
| 1. Continuing fair value measurement | | | | |
| (1) Other current assets | | | | |
| (a) Bank financial products | | | | |
| (2) Available-for-sale financial assets | 49,955,000.00 | | | 49,955,000.00 |
| (a) Debt instrument investment | 49,955,000.00 | | | 49,955,000.00 |
| (b) Equity instrument investment | | | | |
| (c) Others | | | | |
| (3) Other equity instrument investment | 716,953,772.26 | | | 716,953,772.26 |
| Total continuing assets measured at fair value | 766,908,772.26 | | | 766,908,772.26 |

XI. RELATED PARTY AND TRANSACTION

(The following amount units are CNY yuan unless otherwise specified)

(I) Parent company information

| Parent company | Registration | Nature | Registered capital (ten thousand yuan) | Proportion of share holding (%) | Proportion of voting rights (%) |
|-----------------------------|--------------|--|---|---------------------------------------|---------------------------------------|
| Harbin Electric Corporation | Harbin | Power station equipment manufacturing and sales | 198,818.10 | 60.41 | 60.41 |

(II) The company's subsidiary

For the details of this company's subsidiary, please refer to Note VIII. Interests in other subjects (I) Interests in Subsidiaries.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XI. RELATED PARTY AND TRANSACTION (CONTINUED)

(IV) Information of other related parties

| Name | Relationship |
|--|--|
| Harbin Harbin Electric Industrial Development Corporation | Subsidiary controlled by the same parent company |
| Harbin Hago Industrial Development Corporation | Subsidiary controlled by the same parent company |
| Harbin Haqi Industry Development Corporation | Subsidiary controlled by the same parent company |
| Harbin Sanlian Industrial Development Corporation | Subsidiary controlled by the same parent company |
| Harbin Electric Group Acheng Relay Co., Ltd. | Subsidiary controlled by the same parent company |
| Jiamusi Motor Factory Co., Ltd | Subsidiary controlled by the same parent company |
| Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd. | Subsidiary controlled by the same parent company |
| Harbin Qingyuan Electric Material Co., Ltd. | Subsidiary controlled by the same parent company |

(V) Transaction information for related party

The transaction price of the transaction between the company and the related party is the price agreed between the parties and is consistent with the transaction price of the non-related party.

1. Continuing Connected Transaction

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XI. RELATED PARTY AND TRANSACTION (CONTINUED)

(V) Transaction information for related party (Continued)

1. Continuing Connected Transaction (Continued)

(1) Transaction information for products and services

| Related party | Amount for this period | Amount for previous period |
|----------------------------------|------------------------|----------------------------|
| Sales of goods | | |
| – Company under the same control | | 5,562,974.47 |
| – Associates | | |
| Purchase | | |
| – Company under the same control | 19,594,418.41 | 61,279,576.13 |
| – Associates | | |
| Service revenue | | |
| – Company under the same control | 29,433.96 | |
| Service expense | | |
| – Company under the same control | 64,155,310.85 | 55,413,302.09 |

The above transaction (1) is a transaction under the “Continuing Connected Transaction – Product and Services Framework Agreement” and is a continuing connected transaction under the requirements of Chapter 14A of the Listing Rules.

(2) Interest paid on deposits

| Related party | Amount for this period | Amount for previous period |
|--------------------------------|------------------------|----------------------------|
| Holding company | 17,433,100.48 | 23,575,469.57 |
| Company under the same control | 1,117,992.61 | 1,194,144.74 |
| Associates | 3,642.99 | 10,239.37 |
| Total | 18,554,736.08 | 24,779,853.68 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XI. RELATED PARTY AND TRANSACTION (CONTINUED)

(V) Transaction information for related party (Continued)

1. Continuing Connected Transaction (Continued)

(3) Interest income from discounted Notes

| Related party | Amount for this period | Amount for previous period |
|--------------------------------|------------------------|----------------------------|
| Company under the same control | 51,644.39 | 18,409.34 |
| Total | 51,644.39 | 18,409.34 |

(4) Fee and commission income

| Related party | Amount for this period | Amount for previous period |
|--------------------------------|------------------------|----------------------------|
| Company under the same control | 12,263.64 | |
| Associates | 149.01 | 9,091.93 |
| Total | 12,412.65 | 9,091.93 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XI. RELATED PARTY AND TRANSACTION (CONTINUED)

(V) Transaction information for related party (Continued)

1. Continuing Connected Transaction (Continued)

(5) Entrusted loan interest income

| Related party | Amount for this period | Amount for previous period |
|---|------------------------|----------------------------|
| Holding company Company under the same control | 7,728,101.25 | 7,802,504.72 |
| Total | 7,728,101.25 | 7,802,504.72 |

The above transactions (2) to (5) are transactions under the "Continuing Connected Transactions – Financial Services Framework Agreement" and are continuing connected transactions under the requirements of Chapter 14A of the Listing Rules.

(6) Consignment management fees

| Related party | Content of related party | Amount for this period | Amount for previous period |
|---------------------------------|--------------------------|------------------------|----------------------------|
| Harbin Electric Group Co., Ltd. | Commissioned agency fees | 3,280,000.00 | 3,280,000.00 |
| Total | | 3,280,000.00 | 3,280,000.00 |

The above transaction (6) is a transaction under the Continuing Connected Transactions – Entrusted Management Contracts and is a continuing connected transaction under Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XI. RELATED PARTY AND TRANSACTION (CONTINUED)

(V) Transaction information for related party (Continued)

1. Continuing Connected Transaction (Continued)

(7) Directors, Supervisors and Senior Management Compensation

The remuneration of each director, supervisor and senior management staff in 2018 is as follows:

Unit: CNY

| Name | Wages and other benefits | Retirement benefit plan contributions | Total |
|--|--------------------------|---------------------------------------|--------------|
| 1. Director | | | |
| (1) executive director | | | |
| Mr. Si Ze-fu | | | |
| Mr. Wu Weizhang | 618,530.00 | 96,499.00 | 715,029.00 |
| Mr. Zhang Yingjian | 553,845.00 | 91,721.00 | 645,566.00 |
| Mr. Song Shichen | 550,130.00 | 89,741.00 | 639,871.00 |
| Executive Director Subtotal | 1,722,505.00 | 277,961.00 | 2,000,466.00 |
| (2) Non-Executive Director | | | |
| None | | | |
| (3) Independent Non-executive Director | | | |
| Mr. Zhu Hongjie | 60,000.00 | | 60,000.00 |
| Mr. Hu Jianmin | 60,000.00 | | 60,000.00 |
| Mr. Yu Wenxing | 60,000.00 | | 60,000.00 |
| Mr. Tian Min (took office at 2018.3) | 50,000.00 | | 50,000.00 |
| Subtotal of independent non-executive directors | 230,000.00 | | 230,000.00 |
| 2. Supervisors | | | |
| Mr. Feng Yongqiang (Pay stoppage at February 2018) | 31,020.00 | 7,478.00 | 38,498.00 |
| Mr. Chen Guang | 372,480.00 | 75,435.00 | 447,915.00 |
| Mr. Zhang Junquan | 405,479.00 | 58,162.00 | 463,641.00 |
| Mr. Zhang Wenming | 367,524.00 | 33,444.00 | 400,968.00 |
| Mr. Zhu Pengtao (took office at 2017.5.26) | 198,764.00 | 40,589.00 | 239,353.00 |
| Subtotals of supervisors | 1,375,267.00 | 215,108.00 | 1,590,375.00 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XI. RELATED PARTY AND TRANSACTION (CONTINUED)

(V) Transaction information for related party (Continued)

1. Continuing Connected Transaction (Continued)

(7) Directors, Supervisors and Senior Management Compensation (Continued)

| Name | Wages and other benefits | Retirement benefit plan contributions | Total |
|---|-----------------------------|---|--------------|
| 3. Senior management | | | |
| Mr. Liu Zhiqian | 558,730.00 | 91,721.00 | 650,451.00 |
| Mr. Xie Weijiang (took office at 2018.11.9) | 60,660.00 | 10,160.00 | 70,820.00 |
| Mr. Lv Zhiqiang (took office at 2018.11.9) | 60,660.00 | 26,200.00 | 86,860.00 |
| Mr. Wang Dexing | 727,100.00 | 209,100.00 | 936,200.00 |
| Mr. Zhang Haiquan | 770,145.00 | 87,881.00 | 858,026.00 |
| Mr. Qu Zhe | 770,145.00 | 87,881.00 | 858,026.00 |
| Mr. Ai Lisong (Company Secretary) | 314,684.00 | 65,522.00 | 380,206.00 |
| Subtotals of senior managers | 3,262,124.00 | 578,465.00 | 3,840,589.00 |
| Total | 6,589,896.00 | 1,071,534.00 | 7,661,430.00 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XI. RELATED PARTY AND TRANSACTION (CONTINUED)

(V) Transaction information for related party (Continued)

1. Continuing Connected Transaction (Continued)

(7) Directors, Supervisors and Senior Management Compensation (Continued)

Among the five highest paid individuals, one (year 2017: 1) was also a senior executive of the company and their remuneration was disclosed as above. The total remuneration of the remaining 4 (year 2017: 4) persons is as follows:

Unit: CNY

| S/N | Position | Wages and other benefits | Retirement benefit plan contributions | Total |
|------------|--|--------------------------|---------------------------------------|--------------|
| The First | President of Harbin Boiler Co., Ltd | 1,024,500.00 | 190,688.00 | 1,215,188.00 |
| The Second | Harbin Boiler Co., Ltd. Vice Chairman and General Manager | 982,600.00 | 189,581.00 | 1,172,181.00 |
| The Third | Deputy General Manager of Harbin Boiler Co., Ltd. | 823,700.00 | 139,004.00 | 962,704.00 |
| The Fourth | Secretary of the Disciplinary Committee of Harbin Boiler Co., Ltd. | 806,900.00 | 147,367.00 | 954,267.00 |
| Total | | 3,637,700.00 | 666,640.00 | 4,304,340.00 |

The above transaction (7) is a continuing connected transaction waived under Rule 14A.33 of the Listing Rules.

2. Connected Transaction

On September 4, 2017, the company issued "announcement (1) Connected Transaction in respect of the proposed issue of new domestic shares under the specific mandate and (2) proposed amendments to the articles of association." The company and the Harbin Electric Group Co., Ltd. signed a "Shares Purchase Agreement for Domestic Shares". The details are as follows:

| Related party | Current period | Prior period |
|-----------------------------|----------------|---------------|
| Harbin Electric Corporation | | 1,270,000,000 |

The above transaction is a connected transaction under the provisions of Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XI. RELATED PARTY AND TRANSACTION (CONTINUED)

(VI) Accounts receivable and payable for related party

1. Accounts receivable

| Items | Related party | Closing balance | | Opening balance | |
|---------------------|--|-----------------|--------------------|-----------------|--------------------|
| | | Book balance | Bad debt allowance | Book balance | Bad debt allowance |
| Account receivables | | | | | |
| | Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd | | | 40,000.00 | |
| Payment in advanced | | | | | |
| | Harbin Haguo Industrial Development Corporation | 50,480,000.00 | | 33,300,000.00 | |
| | Harbin Haguo Industrial Development Corporation | | | | |
| | Harbin Electric Group Acheng Relay Co., Ltd. | 6,895,006.65 | | 6,895,006.65 | |
| | Harbin Haguo Power Station Spare Parts Co., Ltd. | | | 1,003,995.00 | |
| | Harbin Industrial Furnace Joint Venture | 29,400.00 | | 615,000.00 | |
| | Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd | 207,200.00 | | 5,777.00 | |
| Other receivables | | | | | |
| | Harbin Electric Corporation | 162,095,125.59 | | 162,095,125.59 | |
| | Harbin Hadian Industrial Development Corporation | 20,000,000.00 | | 62,982,138.98 | |
| | Harbin Sanlian Industrial Development Corporation | 2,000,000.00 | | 4,200,000.00 | |
| | Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd | 100,000.00 | | 3,003,751.55 | |
| | Harbin Electric Group Acheng Relay Co., Ltd | 9,809,479.54 | | 1,077,707.44 | |
| | Harbin Huitong Electric Power Engineering Co., Ltd. | | | 280,310.65 | |
| | Harbin Hadian Gas Station Co., Ltd | | | 119,981.70 | |
| | Harbin Haguo Boiler Container Engineering Co., Ltd | | | 69,389.37 | |
| | Harbin Industrial Furnace Joint Venture | | | 29,400.00 | |
| | Harbin Harbin Industry Comprehensive Service Management Co., Ltd | | | 26,540.28 | |
| Interest payables | | | | | |
| | Harbin Haguo Industrial Development Corporation | | | 239,250.00 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XI. RELATED PARTY AND TRANSACTION (CONTINUED)

(VI) Accounts receivable and payable for related party (Continued)

2. Account payable Items

| Items | Related party | Book balance | |
|----------------|---|------------------|-----------------|
| | | Closing balance | Opening balance |
| Deposit taking | | | |
| | Harbin Electric Corporation | 1,549,328,422.43 | 643,164,117.73 |
| | Harbin Hadian Industrial Development Corporation | 95,251,839.85 | 66,762,998.90 |
| | Harbin Haguo Industrial Development Corporation | 19,275,064.76 | 35,394,557.94 |
| | Jiamusi Motor Factory Co., Ltd. | 3,534,562.55 | 8,451,289.62 |
| | Harbin Electric Group Acheng Relay Co., Ltd. | 3,723,293.86 | 8,162,193.16 |
| | Harbin Insulation Material Factory | 1,274,175.73 | 6,206,267.11 |
| | Harbin Motor Factory Hospital | 60,722.05 | 5,922,789.08 |
| | Harbin Haqi Industrial Development Corporation | 4,071,505.00 | 5,669,531.00 |
| | Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd | 5,039,092.12 | 5,011,446.67 |
| | Harbin Sanlian Industrial Development Corporation | 2,267,972.84 | 2,943,617.96 |
| | Harbin Turbine Co., Ltd Hospital | 575,963.19 | 2,824,316.40 |
| | Harbin Boiler Co., Ltd Hospital | 674,427.35 | 2,818,879.90 |
| | Harbin Hadian Metal Component Co., Ltd. | 3,428,683.61 | 2,484,545.63 |
| | Harbin Harbin Hospital Management Co., Ltd. | 1,509,305.86 | 2,078,674.59 |
| | Harbin Hadian Property Management Co., Ltd. | 5,338,887.61 | 1,480,628.49 |
| | Harbin Haqi Industry Comprehensive Service Management Co., Ltd. | 2,330,486.05 | 1,290,320.33 |
| | Heilongjiang Hadian Multi-energy Hydropower Development Co., Ltd. | | 897,146.87 |
| | Harbin Electric Machinery Kindergarten | 839,427.92 | 739,552.27 |
| | Harbin Industrial Kiln Joint Venture Company | 37.82 | 408,019.18 |
| | Harbin Hapot Power Station Spare Parts Co., Ltd. | 3,010,986.72 | 211,556.75 |
| | Harbin Qingyuan Electrical Material Co., Ltd. | | 96,579.66 |
| | Harbin Haguo Industrial Development Corporation Kindergarten | 29,681.15 | 5,825.49 |
| | Harbin Hadian Material Distribution Corporation | 75.82 | 2,894.96 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XI. RELATED PARTY AND TRANSACTION (CONTINUED)

(VI) Accounts receivable and payable for related party (Continued)

2. Account payable Items (Continued)

| Items | Related party | Book balance | |
|-------------------|---|-----------------|-----------------|
| | | Closing balance | Opening balance |
| Account payables | | | |
| | Harbin Hadian Metal Component Co., Ltd. | 10,492,501.44 | 10,622,444.87 |
| | Harbin Hapot Power Station Spare Parts Co., Ltd. | | 6,565,595.05 |
| | Harbin Electric Group Acheng Relay Co., Ltd. | 5,236,214.79 | 5,369,155.79 |
| | Harbin Hadian Material Distribution Corporation | 3,601,065.16 | 4,316,915.12 |
| | Harbin Huitong Power Engineering Co., Ltd. | | 2,686,460.92 |
| | Harbin Hadian Property Management Co., Ltd. | 614,341.75 | 1,787,920.00 |
| | Harbin Haguo Industrial Development Corporation | | 1,632,910.00 |
| | Harbin Industrial Kiln Joint Venture Company | 209,741.00 | 1,075,218.64 |
| | Jiamusi Motor Co., Ltd. | 775,098.51 | 702,835.51 |
| | Harbin Haqi Industrial Development Corporation | 300,981.30 | 640,981.30 |
| | Harbin Haguo Boiler Engineering Technology Co., Ltd. | | 625,400.00 |
| | Harbin Berg Electric Equipment Structure Co., Ltd. | 102,430.65 | 278,008.65 |
| | Harbin Qingyuan Electrical Material Co., Ltd. | | 128,502.43 |
| | Harbin Hadian Industrial Development Corporation | 5,158.50 | 111,158.50 |
| | Harbin Haguo Pengbo Economic and Trade Co., Ltd. | 457,852.39 | |
| Note payables | | | |
| | Harbin Industrial Furnace Joint Venture | 1,318,618.87 | 503,674.00 |
| | Harbin Hadian Industrial Development Corporation | 316,188.00 | |
| | Harbin Haqi Industrial Development Corporation | 300,000.00 | |
| Other receivables | | | |
| | Harbin Electric Corporation | 478,000.00 | 8,820,251.60 |
| | Harbin Haqi Industrial Development Corporation | 2,449,341.75 | 2,016,059.07 |
| | Harbin Haqi Industry Comprehensive Service Management Co., Ltd. | | 89,123.00 |
| | GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd. | 600,000.00 | |
| Interest payables | | | |
| | Harbin Electric Corporation | | 4,086,954.84 |
| | Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd | | 143,550.00 |
| | Harbin Haguo Industrial Development Corporation | | 31,556.25 |
| | Harbin Sanlian Industrial Development Corporation | | 8,680.00 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XI. RELATED PARTY AND TRANSACTION (CONTINUED)

(VII) Related party commitments

None

(VIII) Others

None

XII. COMMITMENTS AND CONTINGENCIES

(I) Important commitments

1. *Has signed a contract but has not made a commitment to purchase and build assets*

As of December 31, 2018, the company still has a large contractual expenditure of CNY 24,615.01 that has been signed but has not incurred purchase and construction assets. The details are as follows:

| Company | Unpaid contract amount (ten thousand yuan) | Expected investment period |
|---|---|-------------------------------|
| Harbin Electric Co., Ltd. (headquarters) | 2,188.52 | 2019 |
| Harbin Steam Turbine Works Co., Ltd. | 5,468.48 | 2019 |
| Harbin Electric Machinery Factory Co., Ltd. | 3,260.40 | 2019 |
| Harbin Electric Power Equipment Co., Ltd. | 13,697.61 | 2019 |
| Total | 24,615.01 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Contingencies

1. In-group and out-group guarantees

| No. | Guarantee company | Guaranteed | | | Category | Anti-guarantee method | Amount | Increasing in this year | Situation of Guaranteed | Overdue situation | Sued situation |
|-----|--------------------------------------|---|-------------------------|--------------------------------|-----------------------|-----------------------|----------------|-------------------------|-------------------------|-------------------|----------------|
| | | Name | Nature | Method | | | | | | | |
| | Total | | | | | 2,035,420,477.68 | 917,210,956.67 | | | | |
| 1 | Harbin Electric Machinery Co., Ltd. | Harbin Turbine Co., Ltd | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 330,000,000.00 | 0.00 | Normal operation | None | None |
| 2 | Harbin Electric Machinery Co., Ltd. | Harbin Electric Machinery Factory (Zhenjiang) Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 130,000,000.00 | 0.00 | Normal operation | None | None |
| 3 | Harbin Turbine Co., Ltd. | Harbin Boiler Company Limited | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 174,870,800.00 | 14,716,200.00 | Normal operation | None | None |
| 4 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 70,473,875.00 | 0.00 | Normal operation | None | None |
| 5 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 155,386,300.00 | 0.00 | Normal operation | None | None |
| 6 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 175,061,534.22 | 0.00 | Normal operation | None | None |
| 7 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Other guarantee | No counter guarantee | 21,007,384.14 | 0.00 | Normal operation | None | None |
| 8 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Other guarantee | No counter guarantee | 30,175,665.99 | 0.00 | Normal operation | None | None |
| 9 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Other guarantee | No counter guarantee | 7,548,136.28 | 0.00 | Normal operation | None | None |
| 10 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Other guarantee | No counter guarantee | 7,548,136.28 | 0.00 | Normal operation | None | None |
| 11 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Other guarantee | No counter guarantee | 20,615,296.10 | 0.00 | Normal operation | None | None |
| 12 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 558,657,400.38 | 558,657,400.38 | Normal operation | None | None |
| 13 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 10,164,428.72 | 10,164,428.72 | Normal operation | None | None |
| 14 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 7,561,361.40 | 7,561,361.40 | Normal operation | None | None |
| 15 | Harbin Electric Co., Ltd. | Harbin Electric International Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Other guarantee | No counter guarantee | 326,111,566.17 | 326,111,566.17 | Normal operation | None | None |
| 16 | HE Harbin Power Plant Valve Co., Ltd | Harbin Electric Power Equipment Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 4,290,000.00 | 0.00 | Normal operation | None | None |
| 17 | HE Harbin Power Plant Valve Co., Ltd | Harbin Electric Power Equipment Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 5,220,852.00 | 0.00 | Normal operation | None | None |
| 18 | HE Harbin Power Plant Valve Co., Ltd | Harbin Electric Power Equipment Co., Ltd. | State-owned enterprises | joint responsibility guarantee | Performance guarantee | No counter guarantee | 727,741.00 | 0.00 | Normal operation | None | None |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XIII. EVENTS AFTER BALANCE SHEET DATE

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

XIV. OTHER IMPORTANT EVENTS

(I) Segment information

1. *The determination basis and accounting policy of the report segment*

According to the company's internal organizational structure, management requirements, and internal reporting system, six reporting divisions were identified: thermal power equipment and equipment divisions, hydropower equipment and equipment divisions, power station engineering service divisions, power plant auxiliary equipment and auxiliary products. Divisions, nuclear power product divisions, and AC & DC motors and other divisions. Each of the company's reporting divisions provides different products or services or operates in different regions. Since each segment requires different technologies or marketing strategies, the management of the company separately manages the operating activities of the various reporting segments and regularly evaluates the operating results of these reporting segments in order to decide to allocate resources to them and evaluate their performance.

Inter-segment transfer prices are determined on the basis of actual transaction prices, and expenses indirectly attributable to each segment are allocated among segments based on the proportion of income. Assets are allocated based on the operation of the segment and the location of the assets. Segment liabilities include liabilities that are attributable to the segment formed by the segment's operating activities. If the expenses related to liabilities shared by multiple operating segments are allocated to these operating segments, the shared liabilities are also allocated to these operating segments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XIV. OTHER IMPORTANT EVENTS (CONTINUED)

(I) Segment information (Continued)

2. Report Division Financial Information

(1) Segment assets, liabilities and income

| Items | Thermal power equipment | Hydropower host equipment | Power station engineering services | Power station auxiliary equipment and ancillary products | Nuclear products | AC and DC motors and other | Total |
|---|-------------------------|---------------------------|------------------------------------|--|------------------|----------------------------|-------------------|
| Closing balance | | | | | | | |
| Reportable segment assets | 38,060,046,043.09 | 4,981,546,381.13 | 5,900,713,218.18 | 2,224,798,407.05 | 5,918,287,179.76 | 6,783,336,804.67 | 63,868,728,033.88 |
| Including: increase in 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 |
| Purchased fixed assets and intangible assets | 37,055,011.52 | 5,563,549.63 | 3,113,450.72 | 3,749,449.78 | 41,635,536.57 | 32,934,371.17 | 124,051,369.39 |
| Reportable segment liabilities | 30,909,471,437.62 | 2,886,382,078.26 | 5,424,335,500.65 | 1,612,693,371.77 | 4,168,102,585.60 | 5,536,702,477.71 | 50,537,687,451.61 |
| Amount during this period | | | | | | | |
| Segment revenue | | | | | | | |
| Income from external customers | 11,877,253,493.44 | 1,704,635,327.78 | 7,411,068,070.00 | 899,959,203.92 | 1,338,543,115.52 | 2,648,001,639.96 | 25,879,460,850.62 |
| Income between segment | 2,445,150,561.55 | | | | | 25,907,149.35 | 2,471,057,710.90 |
| Reportable segment profits | 14,322,404,054.99 | 1,704,635,327.78 | 7,411,068,070.00 | 899,959,203.92 | 1,338,543,115.52 | 2,673,908,789.31 | 28,350,518,561.52 |
| Reportable segment gross profit | 1,688,416,137.54 | 151,307,340.39 | 253,427,300.43 | 90,244,697.64 | 279,757,718.61 | 762,349,542.38 | 3,225,502,736.99 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XIV. OTHER IMPORTANT EVENTS (CONTINUED)

(I) Segment information (Continued)

2. Report Division Financial Information (Continued)

(1) Segment assets, liabilities and income (Continued)

| Items | Thermal power equipment | Hydropower host equipment | Power station engineering services | Power station auxiliary equipment and ancillary products | Nuclear products | AC and DC motors and other | Total |
|---|-------------------------|---------------------------|------------------------------------|--|------------------|----------------------------|-------------------|
| Opening balance | | | | | | | |
| 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 in 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 |
| Purchased 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 | 34,634,317,661.74 | 2,229,206,421.05 | 5,884,095,242.01 | 2,316,900,005.18 | 6,304,818,582.81 | 4,993,809,765.82 | 56,363,147,678.61 |
| Amount during previous period | | | | | | | |
| Segment revenue | | | | | | | |
| Income from external customer | 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 revenue | 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 profit | 2,371,509,963.21 | 182,328,452.21 | 490,768,642.94 | 195,206,172.08 | 519,357,241.58 | 594,919,083.22 | 4,354,089,555.24 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XIV. OTHER IMPORTANT EVENTS (CONTINUED)

(I) Segment information (Continued)

2. Report Division Financial Information (Continued)

(2) Segment assets, liabilities and income

| Items | Closing balance | Opening balance |
|---|--------------------------|--------------------------|
| Asset | | |
| Reportable segment assets | 63,868,728,033.88 | 70,201,843,933.22 |
| Offset relevant contacts between divisions | -19,044,229,265.34 | -20,122,713,238.83 |
| Reportable segment net assets | 44,824,498,768.54 | 50,079,130,694.39 |
| Deferred tax assets | 490,142,216.40 | 430,581,741.83 |
| Other non-current assets | | |
| Financial assets at fair value through profit or loss | | |
| Restricted and pledged bank loans | | |
| Bank deposit | 8,730,639,860.30 | 12,155,831,808.52 |
| Central bank deposit | 635,145,558.72 | 747,561,319.78 |
| Cash and cash equivalents | 50,694,420.76 | 107,033,625.67 |
| Unallocated headquarters and company assets | 1,810,861,851.34 | 1,317,953,882.79 |
| Total assets | 56,541,982,676.06 | 64,838,093,072.98 |
| Liability | | |
| Reportable segment liabilities | 50,537,687,451.61 | 56,363,147,678.61 |
| Offset relevant contacts between divisions | -12,683,916,496.00 | -8,721,527,596.46 |
| Net reportable segment liabilities | 37,853,770,955.61 | 47,641,620,082.15 |
| Taxes payable | 374,043,503.79 | 240,442,949.52 |
| Deferred income tax liabilities | | 7,280,974.79 |
| Unallocated headquarters and corporate liabilities | 2,005,137,618.23 | 806,597,387.90 |
| Total liabilities | 40,232,952,077.63 | 48,695,941,394.36 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XIV. OTHER IMPORTANT EVENTS (CONTINUED)

(I) Segment information (Continued)

2. Report Division Financial Information (Continued)

(2) Segment assets, liabilities and income (Continued)

| Items | Amount for this period | Amount for previous period |
|--|------------------------|----------------------------|
| Revenue | | |
| Income from external customers | 25,879,460,850.62 | 31,540,323,856.38 |
| Inter-segment revenue | 2,471,057,710.90 | 2,415,688,297.31 |
| Reportable segment revenue | 28,350,518,561.52 | 33,956,012,153.69 |
| Reportable segment gross profit | 3,225,502,736.99 | 4,354,089,555.24 |
| Offset segment losses | 33,572,806.15 | 81,719,926.20 |
| Reportable segment gross profit from customers outside the group | 3,191,929,930.84 | 4,272,369,629.04 |
| Long-term equity investment income accounted for by the equity method | 33,832,648.30 | 26,360,761.31 |
| Interest income | 485,064,692.65 | 488,136,436.30 |
| Chinese government grant | 179,653,758.71 | 96,282,405.05 |
| Financial assets at fair value through profit or loss for the current period | | -11,399,680.48 |
| Financial liabilities measured at fair value and whose changes are charged to profit or loss for the current period – cash flow hedges | | |
| Interest expenses | 145,030,891.91 | 266,495,807.13 |
| Impairment losses for long-term assets such as fixed assets and intangible assets | | 29,642,866.59 |
| Unallocated other income and net income | 151,370,514.79 | 97,359,627.28 |
| Unallocated headquarters and corporate expenses | 3,739,966,519.15 | 4,329,604,099.85 |
| Total profit | 156,854,134.23 | 343,366,404.93 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XIV. OTHER IMPORTANT EVENTS (CONTINUED)

(I) Segment information (Continued)

2. Report Division Financial Information (Continued)

(3) Regional information

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

(II) There are no other important issues that have an impact on investor decision-making in this period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES

(The following amount units are CNY yuan unless otherwise specified)

(I) Notes receivable and accounts receivable

| Item | Closing balance | Opening balance |
|---------------------|-----------------------|-----------------------|
| Notes receivable | 54,264,153.84 | 109,863,832.00 |
| Accounts receivable | 882,242,918.55 | 814,954,732.15 |
| Total | 936,507,072.39 | 924,818,564.15 |

1. Note receivables

(1) Category of note receivables

| Category | Closing balance | | | Opening balance | | |
|-----------------------------|----------------------|--------------------|----------------------|-----------------------|--------------------|-----------------------|
| | Book balance | Bad debt allowance | Book value | Book balance | Bad debt allowance | Book value |
| Bank acceptance bill | 47,770,000.00 | | 47,770,000.00 | 109,863,832.00 | | 109,863,832.00 |
| Commercial acceptance draft | 6,494,153.84 | | 6,494,153.84 | | | |
| Total | 54,264,153.84 | | 54,264,153.84 | 109,863,832.00 | | 109,863,832.00 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(I) Notes receivable and accounts receivable (Continued)

2. Account receivables

(1) Category of account receivables

| Category | Closing balance | | | | | Opening balance | | | | |
|---|-------------------------|----------|-----------------------|--------------------|-----------------------|-------------------------|----------|-----------------------|--------------------|-----------------------|
| | Book balance | | Bad debt allowance | | Book value | Book balance | | Bad debt allowance | | Book value |
| | Amount | Rate (%) | Amount | Provision rate (%) | | Amount | Rate (%) | Amount | Provision rate (%) | |
| Account receivables with significant single amount and with separate provision for bad debts | - | - | - | - | - | - | - | - | - | - |
| Receivables for provision for bad debts based on a combination of credit risk characteristics | 1,145,527,296.60 | 100.00 | 263,329,378.05 | 22.99 | 882,197,918.55 | 1,055,134,925.97 | 99.99 | 240,265,193.82 | 22.77 | 814,869,732.15 |
| Receivables with insignificant single amounts but with separate provision for bad debts | 45,000.00 | | | | 45,000.00 | 85,000.00 | 0.01 | | | 85,000.00 |
| Total | 1,145,572,296.60 | - | 263,329,378.05 | - | 882,242,918.55 | 1,055,219,925.97 | - | 240,265,193.82 | - | 814,954,732.15 |

In the portfolio, accounts receivable for bad debt provision according to aging analysis method:

| Age | Closing balance | | | Opening balance | | |
|---------------|-------------------------|-----------------------|----------------|-------------------------|-----------------------|----------------|
| | Account receivables | Bad debt allowance | Provision rate | Account receivables | Bad debt allowance | Provision rate |
| Within 1 year | 648,907,084.80 | 32,445,354.23 | 5.00 | 780,373,308.67 | 39,018,665.44 | 5.00 |
| 1-2 years | 304,288,486.50 | 76,072,121.62 | 25.00 | 48,638,470.52 | 12,159,617.63 | 25.00 |
| 2-3 years | 33,980,470.52 | 16,990,235.26 | 50.00 | 25,105,353.96 | 12,552,676.98 | 50.00 |
| 3-4 years | 25,105,353.96 | 20,084,283.17 | 80.00 | 108,403,995.25 | 86,723,196.20 | 80.00 |
| 4-5 years | 77,542,585.25 | 62,034,068.20 | 80.00 | 14,013,800.00 | 11,211,040.00 | 80.00 |
| Over 5 years | 55,703,315.57 | 55,703,315.57 | 100.00 | 78,599,997.57 | 78,599,997.57 | 100.00 |
| Total | 1,145,527,296.60 | 263,329,378.05 | | 1,055,134,925.97 | 240,265,193.82 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(I) Notes receivable and accounts receivable (Continued)

2. Account receivables (Continued)

(2) *Receivables that are not individually significant at the end of the period but are individually provisioned for bad debts:*

| Account receivables | Closing balance | | | Provision reason |
|---|---------------------|--------------------|----------------|---------------------------------|
| | Account receivables | Bad debt allowance | Provision rate | |
| Harbin Electric International Co., Ltd. | 45,000.00 | | | Related parties are not accrued |
| Total | 45,000.00 | | | |

(3) *Current provision, reversal or recovery of bad debts*

The bad debt provision of this year was CNY23,064,184.23.

(4) *The top five receivables according to the closing balance of arrears*

| Company | Closing balance | | |
|---|-----------------------|--------------|----------------------|
| | Account receivables | Rate (%) | Bad debt allowance |
| Luoyang Wanzhong Geely Thermal Power Co., Ltd. | 281,294,350.00 | 24.55 | 14,064,717.50 |
| Huadian International Materials Co., Ltd. | 145,237,060.00 | 12.68 | 33,165,725.00 |
| China Resources Power (Jinzhou) Co., Ltd. | 119,111,135.60 | 10.40 | 5,955,556.78 |
| Jiangsu Huadian Kunshan Thermal Power Co., Ltd. | 89,184,267.43 | 7.79 | 21,626,775.32 |
| Inner Mongolia Daban Power Generation Co., Ltd. | 65,986,659.00 | 5.76 | 3,299,332.95 |
| Total | 700,813,472.03 | 61.18 | 78,112,107.55 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(I) Notes receivable and accounts receivable (Continued)

2. Account receivables (Continued)

(5) Receivables derecognized due to transfer of financial assets

No accounts receivable due to transfer of financial assets during the current period.

(6) Transfer of accounts receivable and continued involvement in the formation of assets and liabilities

The amount of assets and liabilities that have not been transferred during the current period and continue to be involved in the formation.

(II) Other receivables

| Items | Closing balance | Opening balance |
|---------------------|-------------------------|-------------------------|
| Interest receivable | | |
| Dividend receivable | 103,848,325.26 | 75,124,995.11 |
| Other receivables | 1,712,642,997.30 | 987,349,656.17 |
| Total | 1,816,491,322.56 | 1,062,474,651.28 |

1. Dividend receivable

(1) Category of dividend receivable

| Items | Closing balance | Opening balance |
|---|-----------------------|----------------------|
| Harbin Electric Machinery Co., Ltd. | 17,323,540.23 | 17,323,540.23 |
| Harbin Power Technology & Trade Inc. | 1,350,000.00 | 1,050,000.00 |
| Chengdu Sunny Asia Co., Ltd | 2,912,863.76 | 2,912,863.76 |
| HE Harbin Power Plant Valve Co., Ltd. | 2,324,550.43 | 2,324,550.43 |
| Harbin Haguo Valve Co., Ltd. | 51,514,040.69 | 51,514,040.69 |
| GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd. | 28,423,330.15 | |
| Total | 103,848,325.26 | 75,424,995.11 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(II) Other receivables (Continued)

2. Other receivables

(1) Category of other receivables

| Category | Closing balance | | | | | Opening balance | | | | |
|--|-------------------------|----------|----------------------|--------------------|-------------------------|-------------------------|----------|----------------------|--------------------|-----------------------|
| | Book balance | | Bad debt allowance | | | Book balance | | Bad debt allowance | | |
| | Amount | Rate (%) | Amount | Provision rate (%) | Book value | Amount | Rate (%) | Amount | Provision rate (%) | Book value |
| Other receivables that are individually significant and individually provided for bad debt provision | 1,652,073,093.34 | 95.90 | - | - | 1,652,073,093.34 | 983,385,410.19 | 97.90 | 12,438,741.38 | 1.26 | 970,946,668.81 |
| Other receivables with bad debt provision according to credit risk characteristics | 26,927,135.05 | 1.56 | 4,205,971.56 | 15.62 | 22,721,163.49 | 13,318,739.89 | 1.33 | 2,842,449.37 | 21.34 | 10,476,290.52 |
| Other receivables with insignificant single amounts but with separate provision for bad debts | 43,726,896.15 | 2.54 | 5,878,155.68 | 13.44 | 37,848,740.47 | 7,818,352.20 | 0.78 | 1,891,655.36 | 24.20 | 5,926,696.84 |
| Total | 1,722,727,124.54 | - | 10,084,127.24 | - | 1,712,642,997.30 | 1,004,522,502.28 | - | 17,172,846.11 | - | 987,349,656.17 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(II) Other receivables (Continued)

2. Other receivables (Continued)

(2) Other receivables with significant single amount at the end of the period and separately provision for bad debts

| Other receivables | Closing balance | | | |
|---|-------------------------|----------------------|--------------------|---------------------------------|
| | Other receivable | Bad debt preparation | Provision rate (%) | Provision reason |
| Harbin Electric Machinery Co., Ltd. | 213,078,880.00 | | | Related parties are not accrued |
| Harbin Boiler Company Limited | 200,362,880.00 | | | Related parties are not accrued |
| Harbin Power Technology & Trade Inc. | 10,168,577.33 | | | Related parties are not accrued |
| Harbin Turbine Co., Ltd. | 290,684,896.97 | | | Related parties are not accrued |
| Chengdu Sunny Asia Co., Ltd. | 16,386,473.85 | | | Related parties are not accrued |
| Harbin Electric Power Equipment Co., Ltd. | 276,602,347.97 | | | Related parties are not accrued |
| Harbin Power Group Harbin Power Station Valve Co., Ltd. | 21,669,316.10 | | | Related parties are not accrued |
| Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd. | 623,119,721.12 | | | Related parties are not accrued |
| Total | 1,652,073,093.34 | | | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(II) Other receivables (Continued)

2. Other receivables (Continued)

(3) In the portfolio, other receivables with provision for bad debts based on aging analysis

| Age | Closing balance | | | Opening balance | | |
|---------------|----------------------|---------------------|----------------|----------------------|---------------------|----------------|
| | Other receivables | Bad debt allowance | Provision rate | Other receivables | Bad debt allowance | Provision rate |
| Within 1 year | 19,865,750.16 | 993,287.50 | 5.00 | 9,257,523.87 | 463,353.19 | 5.00 |
| 1-2 years | 4,831,215.87 | 1,207,803.97 | 25.00 | 2,234,005.49 | 558,501.37 | 25.00 |
| 2-3 years | 442,322.49 | 221,161.25 | 50.00 | 8,293.45 | 4,146.73 | 50.00 |
| 3-4 years | 8,293.45 | 6,634.76 | 80.00 | 12,345.00 | 9,876.00 | 80.00 |
| 4-5 years | 12,345.00 | 9,876.00 | 80.00 | | | |
| Over 5 years | 1,767,208.08 | 1,767,208.08 | 100.00 | 1,806,572.08 | 1,806,572.08 | 100.00 |
| Total | 26,927,135.05 | 4,205,971.56 | | 13,318,739.89 | 2,842,449.37 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(II) Other receivables (Continued)

2. Other receivables (Continued)

(4) Other receivables with insignificant single amount at the end of the period and separately provision for bad debts

| Other receivables | Closing balance | |
|-------------------|--------------------|-----------------------|
| | Bad debt allowance | Provision rate (%)(%) |
| Other receivables | | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(II) Other receivables (Continued)

2. Other receivables (Continued)

(7) The top five other receivables by year-end balance of arrears

| Company | Nature | Closing balance | Age | Proportion of total accounts receivable at year-end balance (%) | Impairment preparation Closing balance |
|---|-----------|-------------------------|--|--|--|
| Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd. | Exchanged | 623,119,721.12 | 1-2 years, 2-3 years, 3-4 years, 4-5 years, over 5 years | 36.17 | |
| Harbin Turbine Co., Ltd | Exchanged | 290,684,896.97 | Less than a year, 4-5 years, over 5 years | 16.87 | |
| Harbin Electric Power Equipment Co., Ltd. | Exchanged | 276,602,347.97 | Less than a year, 1-2 years, 2-3 years, over 5 years | 16.06 | |
| Harbin Electric Machinery Co., Ltd. | Exchanged | 213,078,880.00 | Less than a year, 1-2 years, 2-3 years, over 5 years | 12.37 | |
| Harbin Boiler Company Limited | Exchanged | 200,362,880.00 | 3-4 years | 11.63 | |
| Total | | 1,603,848,726.06 | | 93.10 | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(III) Long term equity investments

| Item | Closing balance | | | Opening balance | | |
|---|------------------|------------------------|------------------|------------------|------------------------|------------------|
| | Booking balance | Impairment preparation | Booking value | Booking balance | Impairment preparation | Booking balance |
| Investment in subsidiaries | 5,343,528,202.18 | 3,000,000.00 | 5,340,528,202.18 | 5,293,548,202.18 | 3,000,000.00 | 5,290,548,202.18 |
| Investment in associates and joint ventures | 125,762,839.40 | | 125,762,839.40 | 135,003,849.87 | | 135,003,849.87 |
| Total | 5,469,291,041.58 | 3,000,000.00 | 5,466,291,041.58 | 5,428,552,052.05 | 3,000,000.00 | 5,425,552,052.05 |

1. Investment in Subsidiary

| Investee Company | Opening balance | Current increase | Current loss | Closing balance | Current provision Impairment preparation | Impairment preparation Closing balance |
|--|------------------|------------------|--------------|------------------|--|--|
| Harbin Electric Group Finance Co., Ltd. | 837,122,531.11 | | | 837,122,531.11 | | |
| Harbin Boiler Factory Co., Ltd | 716,178,892.28 | | | 716,178,892.28 | | |
| Harbin Turbine Co., Ltd | 692,422,891.68 | | | 692,422,891.68 | | |
| Harbin Electric Power Equipment Co., Ltd. | 1,022,652,962.02 | | | 1,022,652,962.02 | | |
| Harbin Electric Machinery Co., Ltd. | 678,546,878.74 | | | 678,546,878.74 | | |
| Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd. | 571,568,274.84 | | | 571,568,274.84 | | |
| Harbin Electric International Co., Ltd. | 500,000,000.00 | | | 500,000,000.00 | | |
| Harbin Power Equipment National Engineering Research Centre Co., Ltd | 120,004,550.35 | | | 120,004,550.35 | | |
| Harbin Power Group Harbin Power Station Valve Co., Ltd. | 97,002,844.08 | | | 97,002,844.08 | | |
| Harbin Electric (H.E) Corporation | 25,780,234.61 | | | 25,780,234.61 | | |
| Harbin Power Technology & Trade Inc. | 15,000,000.00 | | | 15,000,000.00 | | |
| Chengdu Sunny Asia Co., Ltd. | 14,268,142.47 | | | 14,268,142.47 | | |
| Shenzhen Hadong Huihua Industry and Trade Co., Ltd. | 3,000,000.00 | | | 3,000,000.00 | | 3,000,000.00 |
| Hadian Group Shanxi Environmental Protection Engineering Co., Ltd. | | 49,980,000.00 | | 49,980,000.00 | | |
| Total | 5,293,548,202.18 | | | 5,343,528,202.18 | | 3,000,000.00 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(III) Long term equity investments (Continued)

2. Investment in affiliates

| Investee | Opening balance | Impairment | Add investment | Changes in current period | | | | | | Closing balance | Write-off impairment | Closing balance for impairment |
|---|-----------------|------------|----------------|---------------------------|---|---------------------------------------|-------------------------|---------------------------------|---------------|-----------------|----------------------|--------------------------------|
| | | | | Reduce investment | Confirmed under the equity method Investment gains and losses | Other comprehensive income adjustment | Changes in other equity | Declare cash Dividend or profit | Other | | | |
| 1. Affiliates | | | | | | | | | | | | |
| GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd. | 135,003,849.87 | | | | 30,101,873.68 | | | | 45,342,884.15 | | 119,762,839.40 | |
| Harbin Ruifeng New Energy Co., Ltd. | | | 6,000,000.00 | | | | | | | | 6,000,000.00 | |
| Total | 135,003,849.87 | | 6,000,000.00 | | 30,101,873.68 | | | | 45,342,884.15 | | 125,762,839.40 | |

Explain, detail will be showed in Note VI.(XIII).

(IV) Operating income and cost

| Item | Current income | | The amount of the previous period | |
|-------------------------|------------------|------------------|-----------------------------------|------------------|
| | Income | Cost | Income | Cost |
| Main business | 3,065,361,504.82 | 2,974,211,430.68 | 3,005,553,573.93 | 2,861,617,494.39 |
| Thermal power equipment | 2,460,464,620.38 | 2,369,675,273.59 | 1,939,362,906.38 | 1,799,962,083.25 |
| Nuclear Power Project | 604,896,884.44 | 604,536,157.09 | 1,066,190,667.55 | 1,061,655,411.14 |
| Other business | 12,637,622.12 | 5,092,994.64 | 28,240,545.08 | 18,931,297.49 |
| Use license fee | 796,927.13 | | 373,609.12 | |
| Other | 11,840,694.99 | 5,092,994.64 | 27,866,935.96 | 18,931,297.49 |
| Total | 3,077,999,126.94 | 2,979,304,425.32 | 3,033,794,119.01 | 2,880,548,791.88 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XV. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(V) Investment income

| Item | Current period amount | The amount of the previous period |
|---|-----------------------|-----------------------------------|
| Long-term equity investment income calculated by cost method | 422,663,832.17 | 128,173,458.25 |
| Long-term equity investment income accounted for by the equity method | 30,101,873.64 | 24,466,436.81 |
| Investment income from disposal of long-term equity investment | | |
| Investment income of trading financial assets during holding period | | |
| Investment income of financial assets measured at fair value through profit or loss during holding period | | |
| Investment income from disposal of trading financial assets | | |
| Investment gains from disposal of financial assets at fair value through profit or loss | | |
| Interest income earned during the holding of debt investment | | |
| Investment income of available-for-sale financial assets during holding period | | 5,894,980.61 |
| Investment income from disposal of debt investment | | |
| Investment income from disposal of available-for-sale financial assets | | |
| Interest income earned during the holding of other debt investment | | |
| Investment income from held-to-maturity investment during holding period | | |
| Investment income from disposal of other debt investments | | |
| Dividend income earned during the period of investment in other equity instruments | | |
| Investment income of other non-current financial assets during the holding period | | |
| Investment income from disposal of other non-current financial assets | | |
| After gaining control, the remaining equity is remeasured at fair value | | |
| Revenue from the disposal of disposal groups that constitute the business | | |
| Other | | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XVI. ADDITIONAL MATERIALS

(I) Current non-recurring profit and loss schedule

| Item | Amount | Explain |
|--|----------------|---------|
| Profit of non-current asset disposal | 2,564,309.20 | |
| Tax refunds, deductions for unauthorized or non-approved documents | | |
| The government subsidies included in the current profit and loss (except for government subsidies that are closely related to the business of the company and are rationed or quantified according to national uniform standards) | 179,653,758.71 | |
| Including funds occupation fees charged to non-financial enterprises included in current profits and losses | | |
| The investment costs of the subsidiaries, joint ventures and joint ventures obtained by the enterprise are less than the gains from the fair value of the identifiable net assets of the investee when the investment is obtained. | | |
| Non-monetary assets exchange gains and losses | | |
| Gains or losses from entrusting others to invest in or manage assets | | |
| Due to irresistible factors, such as the provision for the impairment of assets that are subject to natural disasters | | |
| Debt restructuring gains and losses | -37,027,178.91 | |
| Corporate restructuring costs, such as expenditures for resettlement of employees, integration costs, etc. | | |
| The fair value of the transaction price exceeds the fair value gain or loss from the fair value of the transaction. | | |
| Net profit and loss for the current period from the beginning of the company's business combination to the combined date under the same control | | |
| Gains and losses from contingent events that are not related to the normal business of the company | | |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(In addition to the special note, the unit of amount is CNY)

XVI. ADDITIONAL MATERIALS (CONTINUED)

(I) Current non-recurring profit and loss schedule (Continued)

| Item | Amount | Explain |
|--|-----------------------|---------|
| Except for the effective hedging business related to the company's normal business operations, the fair value changes arising from held-for trading financial assets and held-for trading financial liabilities and the disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets. | | |
| Investment income obtained | | |
| Reversal of impairment provision for receivables that was individually tested for impairment | | |
| External gains and losses from entrusted loans | | |
| Gains and losses arising from changes in the fair value of investment real estate subsequently measured using the fair value model | | |
| According to the requirements of laws and regulations such as taxation and accounting, the one-off adjustment of current profit and loss will affect the current profit | | |
| Trustee income from trusteeship | | |
| Other non-operating income and expenses | -23,681,226.82 | |
| Other profit and loss items that meet the definition of non-recurring profit and loss | 29,025,791.20 | |
| Total non-operating profit or loss impact on total profit | 150,535,453.38 | |
| Income tax impact | -25,933,020.77 | |
| The impact of minority shareholders' equity | -15,357,287.32 | |
| Non-recurring profit and loss impact attributable to parent company | 109,245,145.29 | |

(II) Return on equity and earnings per share

| Profit | Weighted average return on net assets (%) | Earning per share (yuan) | |
|--|---|----------------------------|-------------------------------|
| | | Basic earning per share | Diluted earnings per share |
| Net profit attributable to common shareholders of the company | 0.48 | 0.04 | 0.04 |
| Net profit attributable to common shareholders of the company after deducting non-recurring gains and losses | -0.25 | -0.02 | -0.02 |

DISCLOSURE OF SIGNIFICANT EVENTS

PRODUCTS & SERVICES

In February, Jiangxi Jiujiang Unit 2 undertaken and manufactured by the Company was successfully connected to the grid at a time. All the indicators of Unit 2 have achieved the best performance level compared with units of the same type.

On 4 April, the “industry big data application technology national engineering laboratory” was officially unveiled and commenced operation at the Jiangbei Research Basement of the Company.

On 27 September, the Contract for a Joint Venture Enterprise entered into between the Company and General Electric (China) Co., Ltd. came into effect.

In October, 1,000MW double reheat unit with maximum parameters in the world at Laiwu Power Plant (萊蕪電廠) with equipment provided by Harbin Boiler Company Limited, a subsidiary of the Company, won Gold Award for Coal Power Project of the Year from Asian Power Awards 2018, becoming the only one of thermal power units from China winning such award in 2018.

On 22 October, the Company participated in the design and manufacturing of Haiyang Unit 1, the world’s first AP1000 demonstration project, which successfully completed the 168-hour continuous full-power operation test. All of indicators and data during its operation were stable. This unit is ready for commercial operation.

On 27 October, distributors of Baihetan water turbine generator unit, the first 1,000MW one in the world, completed acceptance and met standards of high quality.

“China’s hydropower technology upgrading project” of the Company was selected as “CCTV National Brand Program – Public Benefit Communication of National Major Projects.”

“Case in relation to image of overseas environmental construction at clean coal power plant for Hassyan in Dubai” was awarded as “2018 State-owned enterprise’s excellent case for overseas image building”.

DISCLOSURE OF SIGNIFICANT EVENTS (CONTINUED)

SIGNIFICANT CONTRACTS

Significant contracts signed by the Group in 2018 were set out as follows:

| Effective time | Name of project |
|----------------|--|
| January | Contract for the provision of Dongming 2 × 350MW supercritical boiler facilities for Huarun (華潤) |
| February | 6 |

provision of Dongming 2 × 350MW supercritical boiler facilities for Huarun (華潤) in January 2018. The contract value is approximately RMB 1.18 billion.

Contract for the provision of 6 × 3.25 Td (F29.291) Tj0 Tw 14 April 8 Tw -3420 contract for the provision of 6 × 3.25 Td (F29.291) Tj0 Tw 14 August 14.173 56) contract for the pEPC Turnkey by the Gr of Dauxili Tw arun (

DISCLOSURE OF SIGNIFICANT EVENTS (CONTINUED)

OTHER EVENTS

On 9 October, the Company and HPI entered into the Agreement on the Subscription for Shares Issued Under Non-public Issuance by Huaneng Power International, Inc., pursuant to which, the Company will subscribe for 76,335,877 ordinary shares (A shares) issued under the Non-public Issuance by HPI at the subscription price of RMB6.55 per share (equivalent to approximately 90% of the average trading price of the A shares of HPI for 20 consecutive Trading Days before the Price Determination Date), with the total subscription amount of RMB499,999,994.35 (equivalent to approximately HK\$568,188,268.05).

On 24 December, the board of directors of Harbin Electric Corporation Co., Ltd. ("HE") and the board of directors of the Company jointly announced that Citigroup Global Markets Asia Limited, on behalf of HE, firmly intended to make a voluntary conditional cash offer to acquire all the issued H Shares of the Company, which would be made on a basis of HK\$4.56 in cash for each H Share.

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

INFORMATION ON THE COMPANY

REGISTERED NAME OF THE COMPANY

哈爾濱電氣股份有限公司

ENGLISH NAME OF THE COMPANY

Harbin Electric Company Limited

REGISTERED ADDRESS OF THE COMPANY

Block 3
Nangang District High Technology Production Base
Harbin
Heilongjiang Province
The People's Republic of China
Unified social credit code: 91230100127575573H

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Fax: 86-451-82162088
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PLACE OF BUSINESS IN HONG KONG

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LEGAL REPRESENTATIVE

Mr. Si Ze-fu

AUTHORISED REPRESENTATIVES

Mr. Wu Wei-zhang
Mr. Liu Zhi-quan

COMPANY SECRETARY

Mr. Ai Li-song

JOINT COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael

AUDITORS

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as to PRC Law
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The People's Republic of China

LISTING INFORMATION

H Shares
The Stock Exchange of Hong Kong Limited
Stock Code: 1133

INFORMATION ON THE COMPANY (CONTINUED)

DEPOSITARY

The Bank of New York
American Depositary Receipts
22nd Floor West
110 Barclay Street
New York, NY 10286 USA

SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

INFORMATION ON THE COMPANY

**Available at the Secretariat of the Board of Directors of
Harbin Electric Company Limited**

1399 Chuangxinyi Road
Songbei District
Harbin
The PRC

SHAREHOLDERS RECEPTION TIME

On 8th, 18th, and 28th (the following day in case a holiday)
From 9:00 a.m. to 11:00 a.m. and
From 2:00 p.m. to 4:00 p.m.
Tel: 86-451-82135727 or 58590070
Fax: 86-451-82162088

DOCUMENTS AVAILABLE FOR INSPECTION

1. The original copy of the 2018 Annual Report of the Company
2. The original copy of the Company's audited financial statements



ULSABEN ELECTRIC