This is the environmental and social responsibility report of Harbin Electric Company Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2017.

Actively realizing its environmental responsibility of “Friendly Environment, Warm Home”, the Group strives to create an environment-friendly, harmonious, warm and home-like enterprise; it pursues friendships between people, people and nature, and people and society; in the internal, it has created a good atmosphere for understanding, trusting and caring people; in the external, it has established an environment of close cooperation between nature and human. In 2017, the Group seriously carried out the national laws and regulations on energy conservation and environmental protection, controlled pollutant emissions, and saved resources. As a result, the usage of its natural resources was in compliance with laws and regulations, the energy conservation and environmental protection achieved positive results, and no environmental accidents occurred in the whole year.

Focusing on the core value of “unite in a concerted effort, strive in a gathering strength”, the Group adopts people-oriented approach, builds harmonious labor relations, strengthens occupational health protection and continuously improves salary distribution system, in order to fully protect employees’ legitimate rights and interests; it strengthens supply chain management, carries out product responsibilities, promotes the sustainable and healthy development of the enterprise in the overall framework of fulfilling social responsibilities and meeting customer satisfaction, and takes into account the interests of all interested parties to the maximum extent; it actively carries out community contribution and anti-corruption, maintains regional stability, and promotes community harmony. In 2017, the Group consolidated its efforts to safeguard the legitimate rights and interests of employees, strengthened training and paid attention to occupational safety, encouraged innovation, enhanced monitoring, paid attention to services, and actively maintained community stability. During the year, the Group had no substantial product quality incidents, no negative news of community responsibilities and no corruption lawsuits occurred.

The Group actively improves its corporate governance structure to standardize its operation. In 2017, the Group seriously complied with the regulations of “Corporate Governance Code” and “Corporate Governance Report” stated in the Appendix 14 of the Hong Kong Stock Exchange Listing Rules, and adopted the best practices recommended contained therein in an appropriate circumstance.
I. ABOUT THE GROUP

II. ENVIRONMENT
   1. Emissions ......................................... 4
   2. Usage of Resources ............................. 5
   3. Environment and Natural Resources ....... 6

III. SOCIETY
   1. Employment ..................................... 7
   2. Health and Safety ............................... 9
   3. Development and Training .................... 11
   4. Labor Standards ................................ 12
   5. Supply Chain Management .................... 12
   6. Product Liability ............................... 13
   7. Anti-corruption ................................. 16
   8. Community Contribution ..................... 16

IV. GOVERNANCE
I. ABOUT THE GROUP

Harbin Electric Company Limited (the “Company”) together with its subsidiaries (the "Group") is one of the largest power generation equipment manufacturers in China, with nearly 20,000 employees and an annual power generation capacity of 30 million kilowatts.

The Group has been always committed to the revitalization and development of China’s equipment manufacturing industry, and has actively promoted a new leap in China’s power generation equipment manufacturing level and independent innovation capability. Some of its technologies have met the international advanced level. Currently, the Group has developed into a power generation equipment manufacturer dominated by EPC businesses of coal power, hydropower, nuclear power, gas power and power stations, etc., with breakthroughs in new environmental protection industries such as desulfurization and denitrification, seawater desalination and solar power generation. It has basically formed its four business segments including power generation equipment, drive and control equipment, general and environmental protection equipment and modern manufacturing service.

Based on the domestic market, the Group actively carries out the “Going Global” strategy. Its hosts and matching auxiliaries of thermal power, hydropower, nuclear power, etc. have been exported to more than 40 countries and regions including India, Pakistan and Russia. Meanwhile, the Group also launches EPC, BOT and BOO businesses of mechanical and electrical equipment and power transmission and transformation projects in thermal power stations, wind farms and hydropower stations both at home and abroad.

As of 31 December 2017, the Group’s operating revenue was RMB31,540.32 million, of which the net profit attributable to owners of the parent company was RMB194.23 million. During the year, the Company had a total of RMB34.162 billion contracts signed.
Actively realizing its environmental vision of “Friendly Environment, Warm Home”, the Group strives to create an environment-friendly, harmonious, warm and home-like enterprise; it pursues friendships between people, people and nature, and people and society; in the internal, it has created a good atmosphere for understanding, trusting and caring people; in the external, it has established an environment of close cooperation between nature and human.

In 2017, the Group seriously carried out the national laws and regulations on energy conservation and environmental protection, managed pollutant emissions, and saved resources, and the usage of natural resources was in compliance with laws and regulations, the energy conservation and environmental protection achieved positive results, and no environmental incidents occurred in the whole year.

1. EMISSIONS

The Group strictly follows the Environmental Protection Law of the People’s Republic of China, the Comprehensive Work Program for Energy Saving and Emission Reduction in the 13th Five-Year Plan Period and other national laws and regulations, always concerns itself with environmental protection and works on energy saving and emission reduction, and has formulated the Management Measures Concerning Energy Saving and Emission Reduction, the Supervision and Management Measures of Solid Wastes and relevant mechanisms. We actively assume social responsibility to reduce water, air, waste and noise pollution.

In 2017, strictly complying with the national laws and regulations related to environmental protection, the Group achieved a 100% rate in the pollutant emission compliance. It also strictly controlled the total amount of emissions, with no environmental incidents occurred in the year. During the year, the Group carried out 26 energy-saving and emission reduction projects, with a total expense of RMB13.558 million.

The types of emissions of the Group mainly include sulfur oxides, nitrogen oxides, CO₂, etc. In 2017, the Group’s SO₂ emissions were 20.84 tonnes, with a year-on-year increase of 0.58%; COD emissions were 214.10 tonnes, with a year-on-year decrease of 2.36%; nitrogen oxide emissions were 20.41 tonnes, with a year-on-year decrease of 3.95%; ammonia nitrogen emissions were 18.72 tonnes, with a year-on-year decrease of 3.04%; CO₂ emissions were around 275,065 tonnes, and CO₂ per ten thousand Yuan output value were 0.14 tonnes, with a year-on-year decrease of 12.86%. The Group’s pollutant emissions complied with respective national standards.

<table>
<thead>
<tr>
<th>Year</th>
<th>SO₂ (tonnes)</th>
<th>COD (10 tonnes)</th>
<th>Nitrogen oxides (tonnes)</th>
<th>Ammonia Nitrogen (tonnes)</th>
<th>CO₂ (10,000 tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>20.8</td>
<td>21.4</td>
<td>20.4</td>
<td>18.7</td>
<td>27.5</td>
</tr>
<tr>
<td>2016</td>
<td>21.0</td>
<td>22.0</td>
<td>21.0</td>
<td>19.0</td>
<td>30.0</td>
</tr>
</tbody>
</table>

Chart 1 – Comparison of Major Emissions
II. ENVIRONMENT

The Group has rigorously complied with environmental protection regulations regarding the non-hazardous treatment and the declaration, transfer and disposal as well as contingency plan of hazardous wastes. It has standardized and enhanced the environmental management of hazardous wastes by engaging operators holding valid license for processing hazardous wastes and electronic wastes. In 2017, the aggregate amount of hazardous wastes produced by the Group was 1,755 tonnes with a 100% disposal rate. The Group reuses non-hazardous wastes adhering to the principle of making the most use of them. In 2017, the Group generated a total of 27,262 tonnes of non-hazardous waste with a treatment rate of 100% (Note: The total amount of non-hazardous waste generated by the Group in 2016 was 3,063 tonnes, and the significant increase year-on-year in the amount of non-hazardous waste generated in 2017 was due to the disposal of some of the waste materials in the inventory as the Group was committed to reducing “account receivables and inventory”).

Focusing on the establishment of environmental system and standardization of the management of hazardous wastes, the Group’s subsidiaries firmly deal with and rectify any behavior which is not in compliance with relevant regulations and laws and inspects any potential environmental hazard. It controls the source of pollutant and strengthens specially on the management of major source of pollutant by installing online automatic monitoring equipment on the source of water pollutant. Environmental publicity and trainings have been actively carried out to raise the environmental protection awareness of our employees and form a sound atmosphere for protecting the environment.

2. USAGE OF RESOURCES

The Group strictly abides by the PRC laws and regulations regarding environmental protection, has established “Energy Management System”, “Rewards and Punishment Assessing Measures for Single Major Energy Consuming Equipment”, “System for Measurement Management” and other systems, and strictly implements the abovementioned measures during our production process. The Group sets targets for energy consumption each year and relays them to its subsidiaries, which will formulate efficient energy consumption measures according to these targets. In 2017, the Group consumed a total of 65,109 tonnes of standard coal, representing a year-on-year decrease of 8.5%.

The major raw materials required by the Group are steels and non-ferrous metals. By continuously improving our designs and techniques to promote the utilization rate of materials, the Group’s utilization rate of major raw materials was 80% in 2017. The Group’s packaging materials vary with the size and transportation needs of our products and mostly are disposable goods. Due to the high recycling costs, their consumption cannot be measured by standardization.
II. ENVIRONMENT

As regards energy consumption, in 2017, the Group consumed 4.7 thousand tons of raw coal, 131.65 million kWhour of electricity, 17.83 million m³ of natural gas and 495 tons of petroleum. Thus, the aggregate amount of energy consumption was 65,109 tonnes of standard coal and the aggregate consumption per ten thousand Yuan output value was 0.03 tons of standard coal, with a year-on-year decrease of 13.29%. The amount of new water for industrial use was 676,260 tones with a year-on-year decrease of 6.5% and the water consumed per ten thousand Yuan output value was 0.34 m³ with a year-on-year decrease of 10.39%. There are no water sourcing issues as the water and resources used by the Group are industrial products and there is no significant influence on the natural resources. As the headquarter located in Harbin, the Group has access to abundant water resources and other energy. Subject to energy saving and emission reduction and water saving, there are no other restrictions on the use of water and energy resources.

3. ENVIRONMENT AND NATURAL RESOURCES

The Group earnestly fulfilled its responsibility for energy saving and emission reduction, enhanced the internal management and further explored internal energy saving potential and improved and promoted the implementation of regulations and systems including the Occupational Health and Safety Environmental Protection Management Scheme, Group Energy Plan Outline and Environmental Management and Operation Control Procedures. We gave publicity to the national energy saving and emission reduction policy and promoted advanced experience and practical technology to popularize energy saving and emission reduction and form sound atmosphere within the Group; office automation system was used for file distribution, government review and approval and online application for vehicles to reduce carbon emission; measures such as turning off lights when leaving and saving water were taken to reduce energy consumption; besides, we followed “no vehicle day” activity and transported via rail as well as built Qinghuangdao Seaside Heavy Duty Workshop to reduce car exhaust emission. Also, environmental protection standards for technology of products and materials to be purchased would be clearly listed in the tender documents of the central procurement projects, which stipulates to give preference to products with efficiency label, green water-saving certification and eco-mark to effectively reduce the use of over-packaged and disposable goods. The Group has no non-compliance regarding environmental protection in 2017.
III. SOCIETY

Focusing on the core value of “unite in a concerted effort, strive in a gathering strength”, the Group adopts people-oriented approach, build harmonious labor relations, strengthens occupational health protection and continuously improves salary distribution system, in order to fully protect employees’ legitimate rights and interests; it strengthens supply chain management, fulfills product responsibilities, promotes the sustainable and healthy development of the enterprise in the overall framework of fulfilling social responsibilities and meeting customer satisfaction, and takes into account the interests of all interested parties to the maximum extent; it actively carries out investments in community and anti-corruption, maintains regional stability, and promotes community harmony.

In 2017, the Group consolidated its efforts to safeguard the legitimate rights and interests of employees, strengthened training and paid attention to occupational safety, encouraged innovation, enhanced monitoring, paid close attention to services, and actively maintained community stability. During the year, the Group had no substantial product quality incidents, no negative news of community responsibilities and no corruption lawsuits occurred.

1. EMPLOYMENT

The Group implemented the five-day week and eight-hour workday arrangement. Staff are entitled to all holidays prescribed by the nation and local governments and are entitled to paid leaves ranging from 5 to 15 days depending on their years of service. Staff of the Group is entitled to “5 Insurances and 1 Pension” and other benefits. The Group has also established the corporate pension scheme to provide better protection to our staff.

The Group is implementing a master budget management regarding staff remuneration, which constitutes a performance-based reward system that can effectively motivate the staff to make positive contribution to the Group. The Group has established various systems whereby the remuneration of the management is linked to the Group’s performance, forming a floating mechanism for the remuneration of the management.

As of 31 December 2017, the total number of employees in the Company was 15,459, including 2,830 female employees, accounting for 18.3% of the total. The number of the employees aged over 55 was 1,267, accounting for 8.2%; aged 50–55 was 2,588, accounting for 16.7%; aged 40–50 was 4,329, accounting for 28.1%; aged 30–40 was 5,169, accounting for 33.4%; aged under 30 was 2,106, accounting for 13.6%.

<table>
<thead>
<tr>
<th>Table 1 – Staff Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>By profession</td>
</tr>
<tr>
<td>----------------------------</td>
</tr>
<tr>
<td>Enterprise management</td>
</tr>
<tr>
<td>personnel</td>
</tr>
<tr>
<td>Technical personnel</td>
</tr>
<tr>
<td>Front-line production</td>
</tr>
<tr>
<td>personnel</td>
</tr>
<tr>
<td>Auxiliary production</td>
</tr>
<tr>
<td>personnel</td>
</tr>
</tbody>
</table>
As of the end of 2017, there were 17,519 employees in the Group, including 2,267 senior employees, 53 employees with doctorate and postdoctoral degree, 1,501 employees with postgraduate degree and 5,166 employees with undergraduate degree.

Among the Group’s various types of professional and technical personnel, there were members from China Engineering Academy, experts of the “Thousand Experts Plan”, national candidates for the “Hundred-Thousand-Ten Thousand Talents Project”, experts entitled to special government subsidies granted by the State Council, experts granted with provincial government special allowance and other top-notch experts totaling more than 150, as well as 13 chief technical experts, 41 technical experts; In workers post personnel, 4,652 skilled workers at frontier, skilled personnel 4,063 people, among them, 1 with the Chinese Skills Award, the 18 national technical experts, 41 are highly skilled experts, 284 senior technicians, 897 technicians and 2,882 senior workers.
In 2017, the Company has a total of 3 chief technical experts and 12 highly skilled experts. Three people received special allowance from the provincial government of Heilongjiang. The Company recruited 112 students on campus. In 2017, the annual turnover rate of the Group was 1.3 percent.

### Table 2 – Staff Turnover

<table>
<thead>
<tr>
<th>By gender</th>
<th>Number</th>
<th>By age</th>
<th>Number</th>
<th>Region</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>176</td>
<td>Under 30</td>
<td>104</td>
<td>Heilongjiang province</td>
<td>151</td>
</tr>
<tr>
<td>Female</td>
<td>26</td>
<td>30–45</td>
<td>49</td>
<td>Other regions of the country</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td></td>
<td>45–60</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Chart 4 – Staff Structure (By gender and region)

**Male**

- Under 30: 51%
- 30–45: 30%
- 45–60: 19%

**Female**

- Under 30: 34%
- 30–45: 43%
- 45–60: 23%

**Heilongjiang province**

- Under 30: 53%
- 30–45: 42%
- 45–60: 15%

**Other regions of the country**

- Under 30: 47%
- 30–45: 58%
- 45–60: 15%

### Chart 5 – Staff Turnover

**Male**

- Under 30: 78%
- 30–45: 20%
- 45–60: 2%

**Female**

- Under 30: 78%
- 30–45: 20%
- 45–60: 2%

**Heilongjiang province**

- Under 30: 79%
- 30–45: 20%
- 45–60: 1%

**Other regions of the country**

- Under 30: 78%
- 30–45: 20%
- 45–60: 2%

2. **HEALTH AND SAFETY**

The Group attaches great importance to the health and safety of our staff members. Each subsidiary has set up a regulatory system for production safety and occupational diseases prevention and control. Specific department is assigned to oversee the safety in production, striving to create a safe working environment for the Group’s staff members and keep them out of occupational health hazard.

The senior vice president of the Company led the team for safety inspection
The Group effectively operates the Occupational Health and Safety Management System (OHSMS18000) and Environmental Management System (ISO14000). Insisting on the policy of “placing safety on top of the priority list, taking precaution as the main task and providing comprehensive treatment”, we continue to deepen major responsibilities in ensuring production safety, and extensively commence promotion, education and training on production safety, while safety education will be provided to new employees once they join our Group. We continued to work on meeting the targets of production safety standardization and established sound mechanism on contingency and reaction for overseas safety issues for overseas investment cooperation. Large-scale inspections on production safety are performed regularly to eliminate any potential hazards in a timely manner. Generally, the Group arranges regular medical checkups for staff members once every year. For those who work under poor environment, the items checked and frequency of checkups will be increased accordingly and treatment are regularly organized to minimize occupational threat to their health, enhancing our level of occupational health and safety and environmental management.

The Company carried out a fire safety training and drill

In 2017, the Group took the “two construction focuses” including the construction of safe production standardization and hidden dangers inspection and governance system as its main line, the Group further improved the safety production responsibility system, policy system, risk prevention and control system, education and training system and emergency rescue system, continued to lay a solid foundation for safety production, focused on improving safety management level, and effectively curbed the occurrence of major and extraordinarily serious accidents, thereby providing a solid guarantee for the smooth and healthy development of the Company.
In 2017, the Group inspected a total of 2,590 potential safety hazards, and the rectification rate reached 99.73%. 113 emergency drills were held with 4,574 attendances. The Group invested RMB32.3346 million on safety improvement and the amount of participants of our safe production training reached 27,000. In 2017, there was one fatal incident in relation to safe production, with one death and no serious injury cases occurred. There were 25 counts of slight injury incidents with 25 employees suffering from slight injuries, down 29% year-on-year. Rate of work injury involving a thousand workers was 1.35%. The status of production safety was relatively stable. The overall efficiency for safety was further enhanced.

3. DEVELOPMENT AND TRAINING

The Group selects excellent talents to study master’s and doctoral candidate degrees for working professionals and to be trained overseas. The Group’s subsidiaries select and assign around 50 excellent management and technical personnel to study MBA, master of engineering and doctoral candidate degrees in key universities and colleges in China every year. As a result, a multi-level talent training system for R&D and management has been established and a well-structured professional and technical talent echelon has been gradually formed. In order to meet the requirements of new situation, the Group selects and assigns senior management and excellent technical talents to study and be trained with advanced technical knowledge and management experience in well-known companies overseas such as GE (the United States) and Siemens (German).

In order to strengthen the construction of core talents team, the Company released a series of documents related to talents to guide and motivate the personnel development through dual channels including talents and official career, gradually improving the core talent system of the Company. The Company has established an order for post promotion in the professional technical post from assistant director, deputy director, director, senior director, academic leader and assistant chief engineer of its subsidiaries to technologist and chief technologist of the Company; it also has established an order for post promotion in the production worker post from primary worker, intermediate worker, senior worker, technician, senior technician, associate senior technician, senior technician of its subsidiaries to highly-skilled expert of the Company.

In 2017, the Group continues to focus on building a high quality, high technology and skilled personnel, and carried out various training for 76,943 persons.

<table>
<thead>
<tr>
<th></th>
<th>By gender</th>
<th>By position level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>% trained</td>
<td>97%</td>
<td>95%</td>
</tr>
<tr>
<td>Average training hours</td>
<td>42</td>
<td>40</td>
</tr>
</tbody>
</table>

Table 3 – Annual Training of Staff
III. SOCIETY

4. LABOR STANDARDS

The Group adheres to its “people-oriented” principle of development, which emphasizes staff management, and has established various systems, including the “Staff Management System”, “Labor Contract Management Measures”, “Requirements on Labor Contract Termination” and “Implementation Measures for Paid Leave”. It endeavors to create better working environment for its staff, and at the same time reduces exposure to labor employment risks, as well as efficiently eliminates the use of child and forced labor.

5. SUPPLY CHAIN MANAGEMENT

The supply chain management of the Group adopts a centralized and decentralized mode of operation. Some of the materials are purchased by the subsidiaries in accordance with the bidding and procurement procedures. Some of the materials are collected by the Group and gradually expanded to the proportion of centralized purchasing. At the same time, giving full play to the functions of the tender center, we establish and improve the bidding system, and gradually expand the scope of the tender, standardize management and improve efficiency.

The Group standardizes supplier management, adopts strict credit approval process, and implements procurement tender transparency management. The engagement of suppliers strictly fulfills the following processes:

1. Strictly review the nominated suppliers’ qualification, technical level, production capacity and other aspects according to the Supplier Evaluation Management and Control Procedures and include those passing the review in the list of qualified suppliers.

2. To select the qualified suppliers to purchase materials in the list of qualified suppliers, to fulfill the tender procedures, to issue a notice to than five qualified suppliers (special materials approved by the approval of the strategy, the bottleneck of the supply of materials can be more than three), to evaluate the organizational documents, to conduct tender review, and ultimately to determine the supplier based on a comprehensive review of the results and sign a procurement contract.
III. SOCIETY

For some suppliers, the Group will review relevant information on its environmental and social responsibility. The review procedures are as follows:

1. It is necessary to provide the corresponding documents within one to three days in advance to review the requirements for the review of environmental management operations control procedures, social responsibility reports and their supporting documents. Those who fail to pass environmental certification or no social responsibility report require relevant documents on environmental management and social responsibility.

2. Appointment of persons with environmental system qualification and business management experience to conduct on-site audits based on the documents they provide.

In 2017, we held supplier review meeting for 543 times and reviewed 763 suppliers. As at 31 December 2017, the Group had 3,907 qualified suppliers.

Table 4 – Distribution of Suppliers

<table>
<thead>
<tr>
<th>Region</th>
<th>Heilongjiang Province</th>
<th>Other regions in Northeast China</th>
<th>Other regions of the country</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of suppliers</td>
<td>1,030</td>
<td>378</td>
<td>2,252</td>
<td>247</td>
</tr>
<tr>
<td>%</td>
<td>26%</td>
<td>10%</td>
<td>58%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Chart 6 – Distribution of Suppliers

6. PRODUCT LIABILITY

The Group will adhere to the concept of sustainable development and step up its efforts in developing power generating equipment running on high performance and clean energy as well as new energy, synchronizing the growth of the enterprise and the environment.

The Group conducts environmental protection business which mainly includes gentrification, dust removal and desolation business, being the first enterprise entered into the gentrification market in the PRC. Gentrification products manufactured cover 135MW to 1,100MW units with accumulated capacity of over 100 million kWh. It remains as a tycoon enterprise of gentrification industry in the PRC.
III. SOCIETY

In the meantime, the Group focused on the establishment of a comprehensive research and development system. On one hand, we strive for the application of advanced technology equipment and outdated production capacity; on the other hand, we optimize product mix, actively develop high efficiency, clean, energy-saving and environmental power generation assembly to vigorously develop water, electricity and nuclear power and other clean energy.

A subsidiary of the Company held a technical exchange meeting for environmental protection and energy conservation products

The Group’s proprietary double reheat technology achieved remarkable results in term of energy saving and emission reduction. The power supply coal consumption of 1,000 MW ultra-supercritical generating unit adopting this technology represented a decrease of approximately 12 g/kWh as compared to the ordinary 1,000MW ultra-supercritical generating unit, based on an annual utilization of 6,000 hours, each 1,000MW generating unit can save standard coal of 72,000 tons per year and directly reduce carbon dioxide emission of nearly 200,000 tones, which represents prominent advantages in energy saving and environmental protection and sound economic efficiency, social efficiency and low carbon efficiency; the Group captured the “coal-fired coupled garbage power generation technology” which was approved in the review organized by the National Energy Administration (NEA) of the PRC. Such technology can improve the power generation efficiency of waste incineration to 31.6%, and provide a new solution to tackling the stubborn, difficult problems of direct straw-fired power generation and urban garbage disposal, symbolizing the Company’s position among the forefront of the industry in terms of the coal-fired coupled garbage power generation technology.

The Group encourages and rewards technological innovation, skills innovation and service innovation. We signed strategic cooperation agreements with a number of well-known domestic universities and research institutions. We increased capital and manpower input, worked together to develop the national power industry science and technology project, and jointly established a technological innovation system for the production of power plant equipment based on the combination of enterprises as the main body and the production and learning of research and development. In 2017, the Group applied for 545 patents and obtained 311 patents, of which 101 patents were invented.
III. SOCIETY

The Group set up a special quality inspection department, which shall be responsible for the monitoring and measurement of incoming materials, processes and products (including the monitoring and measurement of the supplier). Personnel engaged in surveillance and measurement must be trained and authorized. The product shall be released and delivered to the customer after the product has been specified for all examinations and tests and the results comply with the requirements. The special circumstances must be approved by the authorized personnel, and shall be approved by the customer (if applicable) to release the products and deliver services to the customer. Quality inspection department will establish and maintain records of monitoring and measurement. When the product quality problems or quality accidents occur, the user service department immediately reports back the relevant information, until the technical professional division assessment and develops a corresponding technical program; the user service department will organize production, technical personnel to the site for repair, construction or replacement.

The executive directors and Senior Vice President of the Company lead the team to conduct product quality inspection and instruction.

The Group’s products generally go through 168-hour trial operation after installation is completed in the power plant, and put into commercial operation after being qualified. During the period of commercial operation, the Group will generally offer one-year quality guarantee period to customers. In 2017, zero quality accident occurred in the Group. No product was recovered for safety and health reasons. After no compliant relating to product and service was received, the Group actively communicated with the customers to solve the problems existing in the products and services, and obtains customer satisfaction. In providing users with products that meet their needs, the Group is also committed to offering timely, effective service to users, proactively conducting visits, understanding and dealing with issues raised by users.
7. ANTI-CORRUPTION

The Group always attaches importance to the establishment of a system advocating anti-corruption and promoting moral cleanliness, comprehensively implements supervisory duties, fastens and secures the cage of system. In 2017 the Company enabled system establishment to be carried out through to the end among various annual tasks, placed emphasis on design of the top floor, and formulated 9 relevant systems in total. In combination of work practice and new requirements of senior management, the Group revised the "Measures for the Implementation of Inspection Work" (《巡視工作實施辦法》) and proposed 10 relevant supporting systems, further facilitating the standardization and systematization of inspection work.

In promoting system for punishing and preventing corruption, the Group carries out the honesty education for leading cadres and personnel in key positions to advance the honest cultural construction, establishes a supervision system and work linkage mechanism led by the Ministry of Supervision with joint participation of all departments, to integrate the anti-corruption work and operation management, and further improve the supervision system of the Company.

In 2017, there were zero cases of corruption in the Group.

8. COMMUNITY CONTRIBUTION

The Group strived to maintain community stability and promote community harmony. The Group consolidated internal resources during implementation of major asset restructuring, democratic deliberation of employee resettlement program and other measures in accordance with the national and local laws and regulations, and carried out corporate reforms orderly, which maintained the stability of the enterprise and the place in which it operates. Meanwhile, the Company pushed forward the construction and operation of labour union mutual funds and charity funds from Party members and encouraged our employees to participate in public welfare activities and contribute to the society, so as to enhance their recognition of the society and enterprise as well as sense of belonging; we have also driven harmonious and sound development of the community through voluntary activities such as kindergarten education, medical service and aiding the poor mass. The Group had no negative publicity regarding social community in 2017.

The Chairman of the Company extended its regards to employees during the Spring Festival holiday
In the meantime, the Group took active part in conducting targeted poverty alleviation work. In active response to the policy of the Central Government and the State Council, the Group has invested an accumulated amount of over RMB1 million to the poverty alleviation activities specially arranged for the residents in Wenshan City of Yunnan Province. The Group undertook poverty alleviation work in terms of five aspects such as infrastructure construction, development of special industries and establishment of investment platform etc.

The Company carried out poverty alleviation works from various aspects

In 2017, the Group selected young cadres to take a temporary post as the first secretary of Dayigu Community (incorporated villages), Wolong Street, Wenshan City, and carried out a series of outstanding, effective work in strengthening Party building at the grass-root level, serving the people, advancing governance of village affairs, and implementing targeted poverty alleviation, thereby making an important contribution to accelerating the pace of poverty alleviation in poverty-stricken areas.
The Company has been actively enhancing its corporate governance structure and standardizing its 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 is crucial to the success and sustainable development of the Company’s business in the long run.

In 2017, 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, save that Mr. Liu Dengqing has resigned as an independent non-executive directors of the Company on 29 December 2017 due to his other business commitments. As the Company was identifying a new independent non-executive director, as of 31 December 2017, the board of directors of the Company has a shortage of one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise, and the numbers of independent non-executive directors were not the majority in the nomination committee of the Board. The Company currently has an addition of independent non-executive director with appropriate accounting expertise: on 21 March 2018, the Company appointed Mr. Tian Min as an independent non-executive director in accordance with the authorization of the annual general meeting.

The Board of the Company is responsible for the corporate governance functions. In 2017, the Board of the Company has strictly observed the policies and practices in compliance with laws and regulatory requirement, and also formulated 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.

Details of which are published under the section headed “Corporate Governance Report” in the 2017 annual report of the Company.