ABOUT THIS REPORT

This is the environmental, social and governance report of Harbin Electric Company Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2018.

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 friendly coexistence between people, people and nature, and people and society. In the internal, it has created a good atmosphere of understanding, trusting and caring for people, while in the external, it has established an environment of close cooperation between nature and human. In 2018, 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, 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, so as 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 by 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 to maintain regional stability and promote community harmony. In 2018, the Group safeguarded the legitimate rights and interests of employees, paid attention to occupational safety, 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 2018, 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 recommended best practices contained therein where appropriate.
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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 an annual power generation capacity of 30 million kilowatts.

The Group has always been 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 main 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, and implemented “Belt and Road” initiative. Its hosts and matching auxiliaries of thermal power, hydropower, nuclear power, etc. have been exported to more than 40 countries and regions, including India, Russia and Brazil. 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 and hydropower stations both at home and abroad.

During the year ended 31 December 2018, the Group’s operating revenue was RMB25,879.46 million, of which the net profit attributable to owners of the parent company was RMB71.32 million. During the year, the Company had a total of RMB33.744 billion contracts signed.
II. ENVIRONMENT

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 friendly coexistence between people, people and nature, and people and society. In the internal, it has created a good atmosphere of understanding, trusting and caring for people, while in the external, it has established an environment of close cooperation between nature and human.

In 2018, 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 Plan 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 as well as energy saving and emission reduction, and has formulated the Management Measures for Energy Saving and Emission Reduction and relevant mechanisms. We actively assume social responsibility to reduce water, air, and noise pollution.

In 2018, strictly complying with the national laws and regulations on environmental protection, the Group achieved a 100% rate in the pollutant emission compliance by strictly controlling the total amount of emissions, with no environmental incidents occurred in the year. During the year, the Group carried out 19 energy-saving and emission reduction projects, with a total expense of RMB11.18 million.

The types of emissions of the Group mainly include sulfur oxides, nitrogen oxides, CO₂, etc. In 2018, the Group’s SO₂ emissions were 19.66 tonnes, with a year-on-year decrease of 5.67%; COD emissions were 216.70 tonnes, with a year-on-year increase of 1.21%; nitrogen oxide emissions were 19.59 tonnes, with a year-on-year decrease of 4.02%; ammonia nitrogen emissions were 17.63 tonnes, with a year-on-year decrease of 5.83%; CO₂ emissions were around 283,123 tonnes, and CO₂ per ten thousand Yuan output value were 0.18 tonnes. The Group’s pollutant emissions complied with respective national standards.
II. ENVIRONMENT

The Group has rigorously complied with environmental protection regulations on the report, transfer and disposal of as well as emergency response to the generation of hazardous wastes. It has standardized and enhanced the environmental management of hazardous wastes by engaging entities holding business license for processing hazardous wastes and electronic wastes. In 2018, the aggregate amount of hazardous wastes produced by the Group was 683 tonnes with a 100% disposal rate. The Group reuses non-hazardous wastes based on the principle of making the most use of them, therefore, the aggregate amount of non-hazardous wastes cannot be measured in a standard way.

The Group has always been attaching great importance to the environmental protection issues. As the Group continued to put more effort on energy saving and emission reduction and strived for better protection of our environment, no environmental incidents occurred in 2018.

Focusing on the establishment of environmental management system and standardization of the management of hazardous wastes, the Group’s subsidiaries firmly deal with and rectify any behavior not in compliance with relevant rules and regulations, and inspects any potential environmental hazard. It controls the source of pollutant and strengthens specially the management of major source of pollutant by installing and operating online automatic monitoring equipment water pollution source. Environmental protection 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.
II. ENVIRONMENT

2. USAGE OF RESOURCES

The Group strictly abides by the PRC laws and regulations on resource conservation, has established “Energy Management System”, “Rewards and Punishments for Assessment of Single Major Energy Consuming Equipment”, “Measurement Management System”, “Energy Management System for Outer-ring Users” and other systems, and strictly implements the abovementioned measures during our production process.

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 2018. 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.

As regards energy consumption, in 2018, the Group consumed 4.6 thousand tonnes of raw coal, 138.13 million kW/hour of electricity, 17.58 million m³ of natural gas and 465 tonnes of petroleum, which were equivalent to a total energy consumption of 66,405 tonnes of standard coal, and the comprehensive energy consumption per ten thousand Yuan output value was 0.04 tonnes of standard coal, with a year-on-year increase of 29.33%. The consumption of new water for industrial use was 608,856 tonnes and the water consumed per ten thousand Yuan output value was 0.34 m³ with a year-on-year increase of 13.63%. There are no water sourcing issues as the water and resources used by the Group are industrial finished products and there is no significant influence on the natural resources. As the headquarter is located in Harbin, the Group has access to abundant water and energy resources. Subject to energy saving and emission reduction as well as water saving, there are no other restrictions on the use of water and energy resources.

Comparison of Resource Consumption

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw coal</td>
<td>0.47</td>
<td>0.46</td>
</tr>
<tr>
<td>Electricity</td>
<td>1.32</td>
<td>1.38</td>
</tr>
<tr>
<td>Natural gas</td>
<td>0.18</td>
<td>0.18</td>
</tr>
<tr>
<td>Petroleum</td>
<td>0.5</td>
<td>0.47</td>
</tr>
<tr>
<td>Total energy</td>
<td>0.65</td>
<td>0.66</td>
</tr>
<tr>
<td>New water for</td>
<td>0.68</td>
<td>0.61</td>
</tr>
</tbody>
</table>
II. ENVIRONMENT

3. ENVIRONMENT AND NATURAL RESOURCES

The Group earnestly fulfilled its responsibility for energy saving and emission reduction, enhanced the internal management to further explore internal energy saving potential, and improved and promoted the implementation of rules and regulations including the Occupational Health and Safety Environmental Protection Management Scheme, the Energy Plan Outline of the Company and the Control Procedures for Environmental Management and Operation. 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 Qinhuangdao 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 had no non-compliance regarding environmental protection in 2018.
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, so as 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 by 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 to maintain regional stability and promote community harmony.

In 2018, 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, attached importance 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 a working system of five days a week and eight hours a day. 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 are entitled to “5 Insurances and 1 Pension” and other benefits. The Group has also established the corporate pension scheme to provide better guarantee for our staff.

The Group implements 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 an incentive mechanism whereby the remuneration of the management personnel is linked to the Group’s performance, forming a flexible administration system for the remuneration of the management personnel.

<table>
<thead>
<tr>
<th>By profession</th>
<th>Number</th>
<th>By educational background</th>
<th>Number</th>
<th>By gender</th>
<th>Number</th>
<th>By age</th>
<th>Number</th>
<th>By region</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise management personnel</td>
<td>4,014</td>
<td>Doctor</td>
<td>53</td>
<td>Male</td>
<td>11,285</td>
<td>Below 30</td>
<td>1,532</td>
<td>Heilongjiang Province</td>
<td>11,760</td>
</tr>
<tr>
<td>Technical personnel</td>
<td>3,448</td>
<td>Postgraduate</td>
<td>1,485</td>
<td>Female</td>
<td>2,456</td>
<td>30-40</td>
<td>5,035</td>
<td>Other regions of the country</td>
<td>1,961</td>
</tr>
<tr>
<td>Frontline production personnel</td>
<td>3,861</td>
<td>Undergraduate</td>
<td>4,875</td>
<td></td>
<td></td>
<td>40-50</td>
<td>3,894</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary production personnel</td>
<td>2,418</td>
<td>Junior college and below</td>
<td>7,328</td>
<td></td>
<td></td>
<td>50-60</td>
<td>3,280</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As of 31 December 2018, the total number of employees in the Company was 13,741, including 2,456 female employees, accounting for 17.9 % of the total. The number of the employees aged over 55 was 1,154, accounting for 8.4 %; aged 50–54 was 2,126, accounting for 15.5 %; aged 40–49 was 3,894, accounting for 28.3%; aged 30–39 was 5,035, accounting for 36.6%; aged under 29 was 1,532, accounting for 11.1%.
As of the end of 2018, there were 14,975 employees in the Group, including 2,266 senior employees, 53 employees with doctoral and postdoctoral degree, 1,485 employees with master’s degree and 4,875 employees with bachelor’s degree.
III. SOCIETY

In 2018, 297 employees left the Group, leading to a turnover rate of 1.9%.

Table 2 – Staff Turnover

<table>
<thead>
<tr>
<th>By gender</th>
<th>Number</th>
<th>By age</th>
<th>Number</th>
<th>By region</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>265</td>
<td>Under 35</td>
<td>226</td>
<td>Heilongjiang Province</td>
<td>206</td>
</tr>
<tr>
<td>Female</td>
<td>32</td>
<td>36–45</td>
<td>57</td>
<td>Other regions of the country</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td></td>
<td>45–60</td>
<td>14</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Staff Turnover (By Gender)

Staff Turnover (By Age)

Staff Turnover (By Region)
III. SOCIETY

2. HEALTH AND SAFETY

The Group attaches great importance to the health and safety of our staff members. Each subsidiary has formulated rules and regulations on production safety and occupational diseases prevention and control, and established a special department to oversee the safety in production, striving to create a safe working environment for staff members and keep them from occupational health hazard.

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 the in-depth implementation of the main responsibilities for 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, thereby enhancing our level of occupational health and safety and environmental management.

In 2018, 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 2018, in strict accordance with national guidelines and policies on production safety, the Group inspected a total of 2,542 potential safety hazards, conducted 121 emergency drills with 5,846 attendances, invested RMB39.2744 million in production safety, and held 136 training sessions on production safety attended by 24,200 persons. In 2018, there were 17 minor accidents with 17 employees suffering from slight injuries, down by 32% year-on-year, and there were no production safety accidents with serious injuries, nor fire and other accidents.
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. Each year, 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, such as Harbin Institute of Technology. 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 Group 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, vice chief engineer, and chief engineer of its subsidiaries to technologist and chief technologist; 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 and Harbin Electric Master Craftsman.

In 2018, the Group continued to focus on building a high quality, high technology and skilled talent team, and carried out various training for 68,659 persons.

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Senior management</th>
<th>Mid-level management</th>
<th>General staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of trainees</td>
<td>97%</td>
<td>95%</td>
<td>100%</td>
<td>100%</td>
<td>91%</td>
</tr>
<tr>
<td>Average training hours</td>
<td>40</td>
<td>40</td>
<td>120</td>
<td>90</td>
<td>35</td>
</tr>
</tbody>
</table>
III. SOCIETY

4. LABOR STANDARDS

The Group adheres to its “people-oriented” development concept, which emphasizes staff management, and has established various systems, including the “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.
III. SOCIETY

5. SUPPLY CHAIN MANAGEMENT

The supply chain management of the Group adopts a centralized and decentralized operation mode. 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’ quality assurance ability, technical level, business qualification and other aspects according to the Management Measures for Suppliers’ Qualifications 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 2018, we reviewed a total of 227 new suppliers. As at 31 December 2018, the Group had a total of 4,013 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>1,691</td>
<td>535</td>
<td>1,581</td>
<td>206</td>
</tr>
<tr>
<td>%</td>
<td>42%</td>
<td>13%</td>
<td>39%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Distribution of Supplier:
- Heilongjiang Province: 42%
- Other regions in Northeast: 13%
- Other regions of the country: 39%
- Overseas: 5%
6. PRODUCT LIABILITY

With the rising demand for energy around the globe and the growing awareness of environmental protection, the promotion of clean energy has become an inevitable trend, which has imposed new pressures and challenges on conventional power generating equipment manufacturing industry. In order to meet the target of reducing the emission of CO₂ by 40%–45% by 2020 as compared to that in 2005, developing power generating equipment running on high performance and clean energy has become a necessary trend for national power generating equipment. Among all the thermal power generating equipment in China, the coal-fired power generating equipment running on high performance and clean energy will be the mainstay in future while hydropower, nuclear power, hybrid power and wind power as well as solar power will enter a new development phase. The Group will adhere to the concept of sustainability and continue to 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 focuses on the establishment of a comprehensive scientific research system and put more efforts into the implementation of scientific and a series of energy saving and emission reduction policies and measures by advocating green technology and energy saving philosophy, so as to enhance the construction of low carbon industrial chain and promote sound and sustainable development of enterprises. On one hand, we strive for the application of advanced technology equipment and obsolete 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. The Group’s proprietary double reheat technology achieved remarkable results in term of energy saving and emission reduction. The power supply coal consumption of 1,000MW ultra-supercritical generating unit adopting this technology was approximately 272 g/kWh, representing 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 tonnes, which represents prominent advantages in energy saving and environmental protection and sound economic efficiency, social efficiency and low carbon efficiency.

The Group has completed the R&D of biomass gasification coupling technology for large-capacity generating units, and entered into the demonstration project on biomass coupled power generation technology transformation for Datang Changshan Thermal Power Plant (大唐長山熱電廠生物質耦合發電技術改造示範項目). In the design process, a biomass feeding system featured with flame spread prevention, anti-jamming and steady operation was designed and optimised. Cold commissioning of the whole system was successfully tested on 10 November 2018. This project is the first and the largest nation-level pilot and demonstration project for technological transformation of thermal coupled biomass gas-fired power generation in China, marking a solid step for the Company in accelerating transformation and upgrading and achieving the transformation of power, whereby the Company has become the leader in the thermal coupled biomass power generation field.

The Group’s environmental protection business mainly includes denitration, dust removal and desolation business. Such businesses are mainly undertaken by the environmental protection subsidiary of Boiler Company. As one of the first enterprises entering the domestic denitration market, this environmental protection subsidiary produces denitration products for generating units with capacity of 135MW-1100MW, with an aggregate unit capacity exceeding 100 million KW. With its results steadily remaining among top 3 in China, this environmental protection subsidiary is a leading enterprise in domestic denitration industry.
The special quality inspection department set up by the subsidiaries of the Group is responsible for the monitoring and measurement of incoming materials, processes and products (including the monitoring and measurement of the supplier). Personnel engages in surveillance and measurement must be trained and authorized. Results of the quality inspection department are prepared in accordance with the planning inspection and test procedures and test conditions, the provisions on inspection and testing program of each stage should be a clear subject to inspection and acceptance of the project and the customer needs to establish records, etc., product design and process department should cooperate. The product shall be released to the customer and delivered to the customer after the product has passed all specified 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 to release the products and delivery services to the customer. The quality inspection department establishes and maintains records of monitoring and measurement, to clearly show that the product has passed the monitoring and measurement in accordance with all requirements and states explicitly the person-in-charge to grant approval on the delivery of product to customers. When the product quality problems or quality accidents occur, the user service department immediately reports the relevant information back to the Group, 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 Group vigorously promotes the spirit of craftsmanship, encourages and rewards technological innovation, skills innovation and service innovation. We signed a strategic cooperation agreement 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 2018, the Company was granted a total of 461 patents, outperforming the annual plan up to 218%, of which 100 patents were invention patents. Repair Methods for Roof Cover of Large Hydropower Units, the patent obtained from electrical machinery companies, was rewarded the 20th China Patent Excellence Award. The Company obtained 22 awards in terms of science and technology, of which 16 are at provincial and ministerial level. The Company presided over and participated in the formulation and revision of 8 national standards and 29 industry standards, respectively.

350MW circulating fluidized-bed boilers of the Group have reached the domestic advanced level. The Yanggao Project has commenced ignition trial operation since the early November. Based on the national key R&D projects, the Company has independently developed the 660MW high-efficiency ultra-supercritical fluidized-bed boiler technology with high parameters. The Company has currently completed the overall technology plan for the boilers and signed the Cooperation Framework Agreement for Shenhua Guoneng Binchang 660MW Ultra-Supercritical CFB Demonstration Project. The new ultra-supercritical 1000MW steam turbine independently developed by the Company with independent intellectual property rights was completed and put into operation at Jiujiang Power Plant of Shenhua Guohua, which achieved “five successes on the first try”. The heat consumption of two units were 7,164.9 kJ/kWh and 7,161.2 kJ/kWh, achieving the advanced level in the country. The world’s first water guiding device of KW hydropower unit in Baihetan passed inspection and acceptance. After the high-quality socket ring for the world’s first hydropower unit with largest single unit capacity, the Company reached the standard of high quality by conquering the difficulty of processing, manufacturing and assembly of the water guiding device, the core of hydraulic turbine.
Our customers are mainly power generation enterprises. 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 2018, zero quality accident occurred in the Group. No product was recovered for safety and health reasons. No compliant relating to product and service was received. 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.
III. SOCIETY

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 2018, 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 and revised relevant systems in a timely manner.

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 discipline inspection commission 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 2018, 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. The Company helped the revival of northeast China by entering into strategic cooperation agreements with prefecture-level cities in the province. 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. For years, the Group actively cooperated with the air defense, armed forces, civil defense and the “two advocacies” of Harbin, Heilongjiang Province and strived for contributing to regional military and civilian development, which were recognized by the Civil Affairs Bureau and Civil Air Defense Office of Harbin. The Group had no negative publicity regarding social community in 2018.

In the meantime, the Group took active part in conducting targeted poverty alleviation work. In active response to the national policies, 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.

In 2018, the Group continued to select young cadres to take positions in Wenshan City, Yunnan Province, and carried out a series of outstanding, effective work in strengthening Party building at the grass-root level, serving the people and implementing targeted poverty alleviation, thereby making an important contribution to accelerating the pace of poverty alleviation in poverty-stricken areas.
IV. GOVERNANCE

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 are crucial to the success and sustainable development of the Company’s business 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 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 2018 annual report of the Company.