



哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

Stock Code: 1133

2021
ANNUAL
REPORT



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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 Workers and Harbin Turbine Works (the “three major power factories”).

Located in Harbin, 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 2021, 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 are one of the largest manufacturers of power plant equipment in China, with a power plant equipment of production capacity of 30,000 MW per annum. The Group’s principal activities and products include:

- thermal power main equipment: 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 equipment: hydro power generators units with single unit capacity up to 1,000 MW, accounting for 50% of the installed capacity of hydro power in China;
- nuclear power main equipment: nuclear island and conventional islands equipment 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, industry 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;
- service for 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 complete sets of power equipment;
- R&D of power equipment and its ancillary products;
- environmental protection engineering services, such as desulfurization, denitrification and dust removal.

Based on the domestic market, the Company 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 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 Company 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 equipment manufacturing industry in China.

FINANCIAL HIGHLIGHTS

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

	Unit	Year ended 31 December				
		2021	2020	2019	2018	2017
Operating Income	<i>RMB'000</i>	21,225,313	23,760,400	22,515,591	25,879,461	31,540,324
Total Profits	<i>RMB'000</i>	-4,200,267	76,958	217,143	156,854	343,366
Net profits attributable to owners of parent	<i>RMB'000</i>	-4,142,448	-7,281	106,173	71,317	194,227
Total assets	<i>RMB'000</i>	60,610,193	57,961,256	55,082,667	56,541,983	64,838,093
Total liabilities	<i>RMB'000</i>	48,415,507	41,761,206	39,226,502	40,232,952	48,695,941
Minority interests	<i>RMB'000</i>	625,992	522,836	276,526	1,282,749	1,271,401
Interests attributable to owners of parent	<i>RMB'000</i>	11,568,694	15,677,215	15,579,639	15,026,282	14,870,751
Net assets per share	<i>RMB</i>	6.779	9.187	9.129	8.805	8.714
Earnings per share	<i>RMB</i>	-2.427	-0.004	0.062	0.042	0.141

FINANCIAL HIGHLIGHTS (CONTINUED)

	Year ended 31 December 2021		Year ended 31 December 2020	
	Income <i>RMB'000</i>	Contribution to operating profit <i>RMB'000</i>	Income <i>RMB'000</i>	Contribution to operating profit <i>RMB'000</i>
Main thermal power equipment	7,561,962	200,886	8,710,410	1,284,811
Main hydro power equipment	2,727,479	176,322	2,454,051	412,062
Nuclear power	1,100,635	209,400	1,467,610	374,936
Engineering services for power stations	4,495,838	-1,839,447	6,405,089	-198,466
Power station auxiliary equipment and ancillary products	851,802	31,148	931,422	101,645
AC/DC motors and other products and services	4,487,597	243,715	3,791,818	728,502
Total	21,225,313	-977,977	23,760,400	2,703,491
Expenses not allocated to major products		-3,222,290		-2,626,533
Total Profits		-4,200,267		76,958

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board, I hereby present the 2021 annual report of Harbin Electric Company Limited (the "Company") and its subsidiaries.

In 2021, in the face of the unprecedented change in a century and severe challenges of energy transformation, the Company always aimed to build a world-class equipment manufacturing enterprise with global competitiveness, made every effort to coordinate the work of epidemic prevention and control as well as production and operation, and achieved new results in the reform and development of enterprises. During the Reporting Period, the gross output value of industries increased by 2.8% year on year, the amount of formal contracts increased by 5.5% year on year, and the capacity of power generating facilities increased by 14.5% year on year, making significant contribution to ensuring the safe, stable and effective supply of electricity and the economic and social development of the country.

During the reporting period, the Company made every effort to promote various key tasks such as the construction of major projects and technological innovation. Key breakthroughs have been made in the construction of major projects. General Secretary Xi Jinping sent a letter of congratulations on the Baihetan hydropower station unit No. 14 taking the lead in the operation and the power generation, the world's first independently developed 1 million-kilowatt hydropower unit, achieving a major breakthrough in China's high-end equipment manufacturing, and Premier Li Keqiang provided comments and instructions; the No. 1 unit of Yangjiang Pumped Storage Power Station, the pumped storage unit with the largest single-unit capacity in China, was connected to the grid for power generation; The demonstration project of the world's first high temperature gas-cooled reactor nuclear power station project of Huaneng in Shidaowan, which was developed with the participation of the Company, was successfully connected to the grid. New steps have been taken in technological innovation, and positive progress has been made in tackling key core technologies, with the completion of prototype identification and product verification of masking main-pump generator with the world-largest capacity for the CAP1400 major specialized pilot project; "Original Technology Source for Advanced Electrical Machinery" and "Original Technology Source for Hydropower Equipment" have been approved to be included in the list of the first batch of technology sources of the SASAC. However, due to the significant downturn of the coal power industry, rising raw material prices, and exchange rate fluctuations and many other unfavorable factors, the Company's efficiency level significantly declined in 2021.

At present, with the identification of the "dual carbon" goal, the adjustment of the energy structure has been accelerated. During the 14th Five-Year Plan period, China's wind power, gas power, hydropower, nuclear power and pumped storage will all usher in rapid development, with newly installed capacities expected to reach 180 million kilowatts, 50 million kilowatts, 40 million kilowatts, 30 million kilowatts and 31 million kilowatts, respectively. Clean and efficient coal-fired power has been approved to be under construction or included in the plan of 210 million kilowatts, and the "three conversions" of coal-fired power are estimated to be 350 million kilowatts for energy saving renovation, 50 million kilowatts for heating renovation, and 200 million kilowatts for flexibility renovation, creating a new broad space and providing a rare historical opportunity for the development of energy equipment manufacturing enterprises, and posing urgent requirements for the technological upgrading and leap forward of energy equipment manufacturing enterprises. In general, the Company is in a critical period of industrial adjustment and innovation-driven transformation, and a period of development opportunities with favourable policies and momentum. The Company will firmly grasp the new development opportunities, accelerate the promotion of the high quality development of the Company during the 14th Five-Year Plan period, and make positive contributions to the realisation of the "dual-carbon" goal.

CHAIRMAN'S STATEMENT (CONTINUED)

The 20th CPC Congress will be held in 2022, which is a significant year connecting the preceding year and the following year for the 14th Five-Year Plan, and a crucial year for the transformation and development of the Company. The Company will adhere to the direction of high-end, intelligent and green development of the industry, further optimise the strategic layout by focusing on the new power system with new energy as the main body, the green and low-carbon drive system, and the clean and efficient industrial system, accelerate the promotion of transformation of the Company from a pure manufacturing enterprise to an equipment manufacturer, engineering integrator and operation and maintenance service provider, implement the "three-step" strategic arrangement of stabilising the foundation, achieving results and improving the level, facilitate the Company to emerge from difficulties and achieve healthy and sustainable development. The Company will adhere to economic benefits as the center, value creation as the core, enterprises as the main body, focus on operational weaknesses and key points, comprehensively carry out the action of turning losses, and strive to increase the profit margin of operating income and the rate of return on industrial investment. The Company will be committed to securing the victory in turning losses and increasing profits. The Company will adhere to the industry benchmarking as measure, focus on expanding the enterprise scale and improving the level of economic benefits, comprehensively carry out the action of catching up, and strive to build a world-class equipment manufacturing enterprise with global competitiveness. The Company will adhere to the in-depth implementation of innovation-driven development, focus on tackling key technological problems, establishing a scientific and technological innovation center, comprehensively carrying out the action of taking the lead in science and technology and constantly improve the ability and level of technological independence and self-reliance. The Company has a complete scientific and technological innovation system, manufacturing system, marketing network and after-sales service network, human resources management system, strong technology accumulation, leading equipment manufacturing strength, and the strong support of many strategic partners. The Company has the confidence, ability and foundation to stabilize and rebound the production and operation of the enterprise and reward all shareholders with excellent performance.

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 effort and contribution, and to all of our staff members for their hard work and dedication.

Chairman

Cao Zhi-an

Harbin, the PRC, 25 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

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

When reading this section, please also refer to the the financial statements and notes of this annual report.

MACRO-ECONOMY AND INDUSTRY DEVELOPMENT

In 2021, by calmly coping with the changes of the century and the COVID-19 outbreak, China has made new strides in building a new development pattern, achieved new results in high-quality development, and made a good start to the "14th Five-Year Plan", maintaining its global leadership in economic development and pandemic prevention and control, accelerating the growth of national strategic science and technological forces, and improving the resilience of the industrial chain. At present, under the impact of COVID-19, the evolution of the changes of the century has accelerated, and the external environment has become more complex, severe and uncertain. China has strong resilience of economy, and the favorable long-term fundamentals has not changed. China has made efforts to reach a peak in carbon emissions in 2030 and "carbon-neutralization" in 2060. Accelerating the clean and low-carbon transformation of energy is the only way to achieve the "dual-carbon" goal, opening up a new and broad space for the development of energy equipment manufacturing industry and providing a rare historical opportunity, but also putting forward urgent requirements for the technological upgrade and leapfrog development of energy equipment manufacturing enterprises.

From the perspective of the overall situation of the power industry, according to the relevant statistics of the China Electricity Council, the investment scale of domestic power engineering has shown steady fluctuation in recent years; the power generation capacity has been rising year on year, while the structure of the power generation industry has been adjusted and the installed generating capacity of renewable energy has been increasing year on year; the power generation capacity has been fluctuating and the electricity consumption of the whole society has been increasing year by year, resulting in a more active demand in the power industry.

From the perspective of the installed capacity of power generation equipment, the transformation of clean and low-carbon energy continued to accelerate, with the national installed capacity of non-fossil energy power generation exceeding that of coal-fired power for the first time in 2021. As of the end of 2021, the total installed capacity of power generation in China was approximately 2.38 billion kilowatts, an increase of 7.9% over the end of the previous year, of which hydropower generation installed capacity was 390 million kilowatts (including 36 million kilowatts of pumped storage), thermal power 1.30 billion kilowatts, nuclear power 53.26 million kilowatts, wind energy 330 million kilowatts, photovoltaic power generation 310 million kilowatts, and biomass power generation 37.98 million kilowatts. The installed capacity of renewable energy exceeded 1 billion kilowatts, and the installed capacity reached 1.063 billion kilowatts, accounting for 44.8% of the total installed power generation capacity. In 2021, the newly installed power generation capacity in China was 180 million kilowatts, representing a decrease of 7.9% over the previous year, of which the newly installed capacity of renewable energy was 130 million kilowatts, accounting for 76.1% of the newly installed power generation capacity in China. Among them, hydropower increased by 23.49 million kilowatts, wind power increased by 47.57 million kilowatts, photovoltaic power generation increased by 54.88 million kilowatts, and biomass power generation increased by 8.08 million kilowatts, accounting for 13.3%, 27%, 31.1% and 4.6% of the newly installed capacity in China, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PRODUCTION AND OPERATION

In 2021, in the face of unprecedented changes of the century, the Company has made effort on the production and operation as well as reform and development, and realised year-on-year growth in total industrial output, worth of duly signed contracts and power generation equipment output, as well as key breakthroughs in the construction of major projects and positive progress in the development of independent technologies, gaining remarkable results. However, due to factors such as significant decline in the coal power industry, rise in raw material prices and exchange rate fluctuations, the Company experienced a significant decline in efficiency level in 2021.

Impact of the COVID-19 pandemic

The COVID-19 pandemic has had great impacts on the execution and economic benefits of the Company's overseas projects. As a result of the pandemic, the on-site personnel of some overseas projects of the Company were unable to rotate normally as planned, resulting in increased travel expenses and expenses for pandemic prevention; to address the shortage of manpower, the Company employed a large number of foreign personnel, resulting in increase in labour costs and significant increase in project management costs; the pandemic has impacted the raw material market where the project is located, affecting ocean freight and leading to the increase in procurement costs; some projects were not implemented as planned, affecting the overall production cycle of the projects.

New contracts

In 2021, the orders of the Company recorded slight increase, thereby realizing RMB28.582 billion worth of duly signed contracts, representing a year-on-year increase of 5.51%, of which RMB9.458 billion (or 33.09%) for thermal power equipment, a year-on-year decrease of 2.47%; RMB3.176 billion (or 11.11%) for hydropower equipment, a year-on-year increase of 92.23%; RMB3.159 billion (or 11.05%) for nuclear power equipment, a year-on-year increase of 632.01%; RMB0.99 billion (or 3.46%) for steam equipment, a year-on-year decrease of 47.87%; RMB4.111 billion (or 14.38%) for power engineering, a year-on-year decrease of 21.35%; RMB4.055 billion (or 14.19%) for power station services, a year-on-year increase of 21.24%; and RMB3.633 billion (or 12.71%) for other products, a year-on-year decrease of 24.91%.

Hydropower industry: With the hydropower market improving in an all-round way in 2021, the Company seized the opportunity to vigorously expand the market, the market share of domestic hydropower main units has been the first for three consecutive years, and the formal contracted value of the Company's hydropower equipment was higher than the previous year.

Nuclear power industry: The Company gave full play to its competitive advantages of the main equipment of nuclear island, and obtained the steam generator contracts for the CX project of CNNC and the Lianjiang project of SPIC, and the formal contract value of the nuclear power equipment increased significantly.

Steam power industry: Affected by the effective period of newly-signed projects, the formal contract value of the Company's steam power equipment decreased.

International market: Following the gradual containment of the COVID-19 in key overseas markets, the results of international market development have improved. In 2021, the overseas formal contract value of the Company was RMB5.874 billion, representing a significant increase of 428.19% over the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Other products: In 2021, orders for small and medium-sized machinery, such as biomass power generation, waste-to-energy and blast furnace gas, decreased significantly. Although orders for key projects and general equipment increased to a certain extent, they could not compensate for the significant decline in orders for small and medium-sized machinery, while orders for other products declined overall.

Production

In order to ensure the Company's sustainable and healthy development and further reduce operational risks, the Company's production of hydropower product in 2021 increase greatly, while other products remain relatively stable. During the year, output of the Company's power generation equipment amounted to 20,480MW, up by 14.5% over the same period last year, of which 9,550MW were produced by water turbine generator units, up by 39.1% over the same period last year and 10,930MW by steam turbine generators, down by 0.7% over the same period last year. Output of steam turbines for power stations was 7,670MW, down by 31.6% over the same period last year and that of boilers for power stations was 13,570MW, up by 3.4% over the same period last year.

Scientific research and innovation

In 2021, the Company invested RMB1.334 billion in science and technology in total, with the R&D investment intensity of 6.37%, and completed 344 scientific research projects and development of 254 new products.

The Company received 24 scientific and technological awards at or above the provincial level throughout the year. "Technology and Application of Prevention and Control for High Temperature Corrosion of Ultra-Supercritical Power Plant Boiler" won the first prize of China electric power scientific and technological progress award; "Development and Application of 1,000MW Ultra-Supercritical Unit with High Load Rate" won the second prize of China electric power scientific and technological progress award; "Technology Innovation and Industrialization for Coupled Biomass Gasification Power Generation of Large Coal-fired Units" won the second prize of Chinese machinery industry science and technology award; "Development and Application of High-efficiency Ultra-Supercritical Boiler for Burning High-alkali Coal in Xinjiang" won the second prize of Chinese machinery industry science and technology award; Xi Jinping, General Secretary of the Central Committee of the Chinese Communist Party, President of the People's Republic of China, and Chairman of the Central Military Commission, sent a letter of congratulations on taking the lead for the power generation of the Baihetan hydropower station unit, the world's first 1 million-kilowatt hydropower unit designed and manufactured by the Company, and Li Keqiang, Member of the Standing Committee of the Political Bureau of the Communist Party of China (CPC) Central Committee and Premier of the State Council, provided comments and instructions. The Company completed 536 patent licenses, including 108 invention patents.

In 2021, the Company continued to make progress in traditional products such as hydropower, nuclear power, gas power, thermal power and general equipment, and achieved remarkable results in new energy storage, pollution and carbon reduction, and digital intelligence. Yangjiang Power Station No. 1 pumped storage unit was successfully connected to the grid for the first time, which is currently the largest single pumped storage unit in China, and also the pumped storage unit with the highest comprehensive technical difficulty and technical level; "Nuanhe No. 1" was put into operation in Haiyang, Shandong; Junliang City 650MW gas-steam combined cycle cogeneration unit, the first 9H combined cycle unit in China, passed the 168-hour trial operation; Qing'an County's 80MW biomass cogeneration project, the world's first biomass cogeneration unit with the largest single capacity, was connected to the grid; the world's first 50-megawatt distributed compensator passed the 168-hour trial operation; the national pilot demonstration project of Jintan salt-cavern compressed air energy storage was successfully connected to the grid; the equipment commissioning of Shanghai Jinshan Rural Sewage Treatment Project and Jiamusi Huanan County Rural Sewage Treatment Project was completed; the Company won the bid of the Ministry of Industry and Information Technology for the project of "Digital Twin Whole Life Cycle Management System for Key Equipment in Power Generation Industry".

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Capital expenditure and significant investments held

In 2021, the Company injected a total of capital expenditures worth RMB1,015 million for major construction and technological transformation projects. The major projects include:

Investing in the Dehui 1×40MW Biomass Thermal Power Cogeneration Project, the project has been grid-connected by the end of 2021; investing in the Wangkui 1×40MW Biomass Thermal Power Cogeneration Project, the project is currently being implemented.

In 2022, the Company intends to commit an investment of RMB0.77 billion in key construction and technological transformation projects, mainly for technical measures and technological transformation projects of subsidiaries, high-tech industrialisation construction project of steam generator for HTSC and further investment for the Dehui 1×40MW Biomass Thermal Power Cogeneration Project and the Wangkui 1×40MW Biomass Thermal Power Cogeneration Project.

Major acquisitions and sales of subsidiaries, associates and joint ventures

On 9 April 2021, Harbin Boiler Company Limited, a wholly-owned subsidiary of the Company, entered into the "Investment Agreement in Zesheng Environmental Company* (澤盛環保公司)" to increase the capital of Zesheng Environmental Company by RMB120 million in cash to hold approximately 50.42% equity interests in Zesheng Environmental Company, making in Zesheng Environmental Company a subsidiary of Harbin Boiler Company Limited.

For more details, please refer to the announcements published by the Company on the website of the Stock Exchange of Hong Kong Limited on 9 April 2021 and 28 April 2021.

MAJOR FINANCIAL INDEXES

Profit

In 2021, net profit attributable to the owner of the parent company realized by the Company registered RMB-4,142.45 million, representing a decrease of 4,135.17 million over the same period last year; earnings per share were RMB-2.427.

The decrease in the Company's profits was mainly attributable to: firstly, the decrease in gross profit from traditional industries due to the decrease in product prices and increase in costs, which led to an increase in the number of loss contracts to be executed; secondly, the impact of the overseas pandemic and the increase in construction costs, which led to a larger loss on overseas international projects; thirdly, the increase in current overheads due to the one-off accrual of extra expenses for retired staff by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Operating income

In 2021, the Company recorded an operating income of RMB21,225.31 million, representing a decrease of 10.67% over the same period last year, of which operating income from the main thermal power equipment (including thermal power and steam power products) was RMB7,561.96 million (or 35.63% of the total operating income), representing a year-on-year decrease of 13.18%. Operating income from main hydropower equipment was RMB2,727.48 million (or 12.85% of the total operating income), representing a year-on-year increase of 11.14%. Operating income from engineering services for power stations was RMB4,495.84 million (or 21.18% of the total operating income), representing a year-on-year decrease of 29.81%. Operating income from ancillary equipment and supplementary products for power stations was RMB851.80 million (or 4.01% of the total operating income), representing a year-on-year decrease of 8.55%. Operating income from AC/DC motors and other products and services was RMB4,487.60 million (or 21.14% of the total operating income), representing a year-on-year increase of 18.35%. Operating income from nuclear power products was RMB1,100.63 million (or 5.19% of the total operating income), representing a year-on-year decrease of 25.00%.

The decrease in the Company's operating revenue was mainly attributable to: firstly, a year-on-year decrease in operating revenue from the domestic traditional industry segment due to a decline in market demand and continued low prices; secondly, a significant decline in operating revenue from international engineering projects due to the impact of the pandemic and international policies on the coal and power industry, as some projects were not executed as expected or did not commence as scheduled.

In 2021, the Company recorded an income of export of RMB3,731.97 million (or 17.58% of the total operating income), decreasing by RMB2,424.28 million over the previous year. The export was dominated by Asia and South America, in which export to Asia amounting to RMB3,603.95 million while export to South America amounting to RMB118.49 million.

Cost

In 2021, the operating costs of the Company amounted to RMB22,203.29 million, representing an increase of 5.44% as compared with the corresponding period of last year.

The increase in the Company's operating costs was mainly due to: firstly, higher product costs due to significant fluctuations in raw material prices; secondly, higher projected liabilities due to projected losses on certain outstanding contracts; thirdly, higher construction costs for international projects due to the impact of factors such as overseas pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross profit and gross profit margin

In 2021, the Company realized a gross profit from operating business of RMB977.98 million, representing a year-on-year decrease of 136.17%, and a gross profit margin was -4.61%, representing a year-on-year decrease of 15.99 percentage points. Out of the gross profit, RMB200.89 million was attributable to the gross profit from main thermal power equipments, decreasing by RMB1,083.92 million over the previous year, while the corresponding gross profit margin was 2.66%, representing a year-on-year decrease of 12.09 percentage points; RMB176.32 million was attributable to the gross profit from main hydropower equipment, decreasing by RMB235.74 million over the previous year, while the corresponding gross profit margin was 6.46%, representing a year-on-year decrease of 10.33 percentage points; RMB1,839.45 million was attributable to the gross profit from engineering services for power stations, decreasing by RMB1,640.98 million over the previous year, while the corresponding gross profit margin was -40.91%, representing a year-on-year decrease of 37.82 percentage points; RMB31.15 million was attributable to the gross profit from ancillary equipment and supplementary products for power stations, decreasing by RMB70.50 million over the previous year, while the corresponding gross profit margin was 3.66%, representing a year-on-year decrease of 7.26 percentage points; RMB243.72 million was attributable to the gross profit from AC/DC motors and other products and services, decreasing by RMB484.79 million over the previous year, while the corresponding gross profit margin was 5.43%, representing a year-on-year decrease of 13.78 percentage points; RMB209.40 million was attributable to the gross profit from nuclear products, decreasing by RMB165.54 million over the previous year, while the corresponding gross profit margin was 19.03%, representing a year-on-year decrease of 6.52 percentage points. The decrease in the Company's gross profit and gross profit margin was mainly due to the decrease in operating income and increase in operating costs in 2021 as a result of a combination of factors such as contract prices, raw material prices and the pandemic.

Expenses for the Period

In 2021, the Company's selling expenses incurred amounted to RMB637.64 million, representing a decrease of RMB38.22 million or 5.65% as compared to the corresponding period of last year, primarily due to the strength of cost control enhanced by the Company to reduce unnecessary expenses; the administrative expenses incurred amounted to RMB1,568.42 million, representing a year-on-year increase of RMB263.71 million or 20.21%, primarily due to the one-off accrual of extra expenses by the Company; the research and development expenses incurred amounted to RMB670.53 million, representing a year-on-year decrease of RMB306.18 million or 31.35%, mainly due to the closure of major specialised research and development projects in 2020 and a larger base of research and development expenses; the finance expenses incurred amounted to RMB13.96 million, representing a year-on-year decrease of RMB172.96 million or 92.53%, mainly due to an increase in foreign exchange gains from forward exchange settlement in 2021.

Funding source and borrowing status

The Company financed its operation and development with four major funding sources, namely shareholder's funds, trade receivables from customers, bank borrowings and state-funded entrusted loans. The Company arranges borrowings based on each specific project. Except for some exceptions, loans are usually raised by each of the Company's subsidiary respectively, while prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 31 December 2021, the Company's total borrowings amounted to RMB7,444.92 million (31 December 2020: RMB7,025.39 million), all of which amounts were borrowed from various financial institutions, such as commercial banks and state-funded entrusted loans, at LPR. Among those borrowings, the amount repayable within one year amounted to RMB6,411.85 million, representing an increase of RMB1,271.25 million as compared with the beginning of the year, primarily due to the increase of state-funded entrusted loan and supplementary working fund; the borrowings repayable after one year amounted to RMB1,033.07 million, representing a decrease of RMB851.71 million as compared to the beginning of the year. As at 31 December 2021, the Company's borrowings were all in RMB and there was no amount due. The repayment plan has been made for the borrowings that were not due, with no risk of default. Details of relevant bank borrowings and other borrowings are set out in Note VIII (XXVII), VIII (XLV) and VIII (XLVII) to the financial statements of this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Monetary capital and cash flows

As at 31 December 2021, the monetary capital of the Company was RMB13,601.88 million, representing an increase of RMB1,353.17 million as compared with the beginning of the year. During the period, the net cash flow generated from operating activities of the Company was RMB1,033.54 million; the net cash flow from investing activities was RMB974.76 million; net cash flow from financing activities was RMB-657.77 million. The Company overcame unfavorable factors such as declining revenue, rising purchase prices and recurring pandemic situation, increased its repayment efforts by means of annual capital budget, monthly rolling capital plan, financial instruments in the industry chain and various means, balanced the overall capital scale, and strictly adhered to the principle of keeping expenses in line with income to increase monetary capital.

Asset structure and movements

As at 31 December 2021, the total assets of the Company amounted to RMB60,610.19 million, representing an increase of RMB2,648.94 million or 4.57% as compared to the beginning of the year, out of which RMB51,501.44 million was current assets, accounting for 84.97% of total assets; and RMB9,109.05 million was non-current assets, accounting for 15.03% of total assets.

Liabilities

As at 31 December 2021, total liabilities of the Company amounted to RMB48,415.51 million, representing an increase of RMB6,654.30 million as compared to the beginning of the year, out of which RMB44,452.07 million was current liabilities, accounting for 91.81% of total liabilities; and RMB3,963.44 million was non-current liabilities, accounting for 8.19% of total liabilities. As at 31 December 2021, the gearing ratio of the Company was 79.88%. The scale of liabilities increased significantly due to factors such as increase in contract liabilities and the increase in estimated liabilities for loss-making contracts.

Owners' interests

As at 31 December 2021, the total equity attributable to the owners of the parent company amounted to RMB11,568.69 million, representing a decrease of RMB4,108.52 million as compared to the beginning of the year; the net asset value per share was RMB6.78, representing a decrease of RMB2.41 as compared with the beginning of the year. During the period, the return rate on net assets of the Company was -30.41%.

Gearing ratio

As at 31 December 2021, the Company's gearing ratio (non-current liabilities over total shareholders' equity) was 0.34:1, compared with that of 0.21:1 at the beginning of the year.

Contingent liabilities and pledges

As at 31 December 2021, the Company pledged its assets of RMB94.65 million to secure loans for liquidity.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Exposure to fluctuations in exchange rate

Some of the deposits of the Company are denominated in foreign currencies. As at 31 December 2021, the amount of the Company's deposits in foreign currencies was equivalent to RMB405.21 million. The export business and businesses settled in foreign currencies expose the Company to exchange risk.

Use of fund-raising proceeds

As of 31 December 2021, RMB185 million of the fund-raising proceeds (the "Proceeds") from the domestic share subscription conducted by the Company in 2017 has not been utilized. The Company has fully utilized its remaining proceeds from issuance of shares and bonds in previous years, and no other fund-raising activities were proceeded during the year.

The use of the proceeds is as follows:

Intended use of the proceeds	Intended amount of the proceeds used <i>(RMB100 million)</i>	Amount of the proceeds used <i>(RMB100 million)</i>	Remaining amount of the proceeds <i>(RMB100 million)</i>	Intended use time
Investment in a joint venture project on gas turbine	1.8	0.91	0.89	Before 24 October 2026
Investment in a nuclear power technology upgrading project	4.86	3.9	0.96	Before 31 December 2023
Purchase of raw materials for the production and operation of the nuclear power business	3	3	0	
Purchase of raw materials for the production and operation of the gas turbine business	1.47	1.47	0	
Conducting financial leasing business	1.54	1.54	0	
Total	12.67	10.82	1.85	

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

OUTLOOK

At present, China's external environment will become increasingly complex, the competition pattern of different industries worldwide will be restructured at an accelerated pace, economic globalisation will encounter adverse currents, trade protectionism will be lifted up, and the economic development and competition of major countries will become more intense. As a strategic industry in the national economy, energy equipment manufacturing industry will play a more pivotal role in promoting economic growth, increasing fiscal revenue, improving people's livelihood, providing employment opportunities, and promoting energy transformation. With the accelerated implementation of China's "dual-carbon" goals, the energy structure is set to usher in rapid adjustment. The newly installed capacity of infrastructure is expected to reach a record high in 2022. According to the Analysis and Forecast Report on the Situation of Electricity Supply and Demand in China in 2021-2022, it is estimated that by the end of 2022, the national installed power generation capacity will reach 2.6 billion kilowatts, representing a year-on-year increase of approximately 9%, and the total installed capacity of non-fossil energy power generation will reach 1.3 billion kilowatts, which is expected to reach half of the total installed capacity for the first time. Hydropower is 410 million kilowatts, grid-connected wind power is 380 million kilowatts, grid-connected solar power is 400 million kilowatts, nuclear power is 55.57 million kilowatts, and biomass power generation is approximately 45 million kilowatts. The installed capacity of coal power is approximately 1.14 billion kilowatts.

2022 is the year when the 20th National Congress of the Communist Party of China will be held, an important year linking the past and the next in the "14th Five-Year Plan", and a crucial year for the transformation and development of the Company. The Company will adhere to the direction of high-end, intelligent and green development of the industry, further optimise its strategic layout around the "three systems", including the new power system with new energy as the subject, green and low-carbon drive system, and clean and efficient industrial system, accelerate the transformation of the Company from a pure manufacturing enterprise to an equipment manufacturer, a system integrator and an operation and maintenance service provider, implement the "three-step" strategic arrangement of stabilising the foundation, accelerate promoting the Company to come across difficulties and achieve healthy and sustainable development, insist on economic benefits as the center, and carry out comprehensive loss-reversal actions. The Company will strive to win the battle to turn losses and increase profits, make every effort to develop the market, comprehensively improve quality and efficiency, pay close attention to product quality management, and do a good job in the implementation of major projects, collect the strength of the whole company to win the battle of turning losses and increasing profits, adhere to the innovation-driven development strategy, carry out solid action of leading science and technology, continue to improve its technological innovation system, deepen the reform of the innovation system and mechanism, accelerate technological research and transformation of achievements, and spare no effort to create a source of original technology; continuously improve the ability and level of scientific and technological self-reliance and self-improvement, adhere to the goal of building a globally competitive world-class equipment manufacturing enterprises, vigorously carry out catch-up actions, continue to deepen the benchmarking work, strengthen assessment and incentive constraints, enhance risk management and control, and continuously enhance management level; strive to promote the deepening of the enterprise reform, optimise the modern enterprise system with Chinese characteristics, comprehensively fulfil the three-year action objectives and tasks of the state-owned enterprise reform, establish a sound market-oriented operation and management mechanism, and highlight special tasks of reform. With stronger responsibilities, stricter requirements and more practical measures, the Company will do its utmost to achieve a stable recovery in production and operation with greater determination, stronger commitment and more practical measures.

Harbin, PRC
25 March 2022

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Cao Zhi-an (“**Mr. Cao**”), born in 1962, holds a master’s degree in engineering and title of senior economist, and is currently an executive Director, chairman of the board of Directors and the secretary of the Party Committee of the Company, and the chairman of the board of Directors and the secretary of the Party Committee of Harbin Electric Corporation* (哈爾濱電氣集團有限公司). Mr. Cao obtained a master’s degree in engineering from North China Electric Power University majoring in thermal engineering. He served as the deputy officer of the Personnel and Director Management Department of the State Power Corporation* (國家電力公司), officer of the Ideological and Politics Work Office, officer of the Administrative Office, officer of the Personnel Director Department and assistant to the general manager of the State Grid Corporation of China* (國家電網公司). He served as the deputy general manager and member of the Party Group of the State Grid Corporation of China since April 2006, and served as the Director, general manager and deputy secretary of the Party Group of the China Southern Power Grid Company Limited* (中國南方電網有限責任公司) since July 2015. He has been serving as the chairman of the Board and the secretary of Party Committee of Harbin Electric Corporation* since November 2021. He has been serving as an executive Director, the chairman of the board of Directors and the secretary of Party Committee of the Company since December 2021.

Mr. Wu Wei-zhang (“**Mr. Wu**”), born in 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 committee secretary of HE. Majoring in Hydraulics and River Dynamics, Mr. Wu graduated from Tsinghua University with a master’s degree and subsequently obtained a doctorate degree at Tsinghua University. Mr. Wu has been a deputy Director and deputy head of the turbine department of Electrical Machinery Institute of the Harbin Electrical Machinery Plant, a deputy factory manager of hydropower workshop, a deputy chief engineer and a deputy manager of the product design department of the Electrical Machinery Company. Mr. Wu was appointed as the deputy general manager of the Electrical Machinery Company in 1999 and then the chairman and general manager in October 2000 respectively. He also holds various social posts, including a member 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. Si Ze-fu (“**Mr. Si**”), born in 1958, holds an MBA degree and the title of senior engineer. He has resigned from his current position now. 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 in 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 in 2008, the chairman of Dongfang Electric Corporation Limited in October 2007, the legal representative of China Dongfang Electric Corporation in April 2009. He has been the chairman and party committee secretary of HE in May 2016 as well as the chairman and party committee secretary of the Company in July 2016. He has resigned as an executive Director, chairman of the board of Directors of the Company in November 2021.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Sun Zhi-yong (“**Mr. Sun**”), born in 1963, holds a MBA degree and is a senior economist. He now serves as a Director, deputy party secretary of State Development & Investment Corporation. He has resigned as an executive Director of the Company. Mr. Sun graduated from Jilin Normal University and received a master's degree in economics from Jilin University and an MBA degree from Guanghua School of Management of Peking University. Mr. Sun had held various positions such as deputy manager of the manager department of Huaneng Finance Company, deputy general manager and deputy party secretary of China Huaneng Technology Development Co., Ltd., deputy general manager and member of the party group of Huaneng Comprehensive Industry Co., Ltd., chairman and party secretary of Huaneng Information Industry Holding Co., Ltd., assistant to the general manager of China Huaneng Group Co., Ltd. He had been the deputy general manager and member of the party group of China Huaneng Group Co., Ltd. in July 2013, and has been the deputy secretary of the party committee of HE in January 2018, deputy secretary of the party committee of the Company in April 2018 and the Director of HE in March 2019. He served as the executive Director of the Company in January 2021, and resigned as the executive Director of the Company in February 2022.

Mr. Zhang Ying-jian (“**Mr. Zhang**”), born in 1964, a master's degree holder and senior engineer, is currently a senior vice president and the standing committee member of the Party Committee of the Company and the standing committee member of the Party Committee and deputy general manager of HE. He has retired as an executive Director of the Company. Mr. Zhang graduated from the Department of Thermal Engineering at Tsinghua University with a bachelor's degree in gas turbines 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 Director 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 in January 2013, and an executive Director, the senior Vice-president of the Company in March 2013, and retired as an executive Director of the Company in January 2021.

Independent non-executive Directors

Mr. He Yu (“**Mr. He**”), born in 1957, is a senior engineer at researcher level with postgraduate degree and a doctoral degree in management. He is currently an independent non-executive Director of the Company. Mr. He graduated from Huazhong University of Science and Technology, and had held various positions such as deputy general manager of Guangdong Nuclear Power Joint Venture Co., Ltd., deputy general manager, member of the party group, general manager, member of the party committee of China Guangdong Nuclear Power Corporation Co., Ltd.. He served as the chairman of the Board, secretary of the party committee of China General Nuclear Power Corporation (renamed in April 2013, formerly known as China Guangdong Nuclear Power Corporation Co., Ltd.) in April 2010. He retired in July 2020, and served as an independent non-executive Director of the Company since January 2021.

Mr. Hu Jian-min (“**Mr. Hu**”), born in 1954, holds a bachelor degree and the title of senior engineer and serves as an independent non-executive Director of the Company and an independent Director of China first heavy industries. Mr. Hu was graduated from Shandong Institute of Technology, majoring in power system relay protection and automation. He served as a 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, assistant to general manager of China Huaneng Group, executive Director and general manager, and secretary of the party committee 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Chen Guo-qing (“**Mr. Chen**”), born in 1964, a senior engineer with postgraduate qualifications. He is now an independent non-executive Director of the Company and a full-time external Director of Central Enterprises. Mr. Chen graduated from Chongqing University and had served as deputy Director and member of the party committee of the Three Gorges Dam Hydropower Station, assistant to the general manager and deputy chief engineer, chief engineer, member of the party committee, deputy general manager, secretary of the party committee and deputy general manager, general manager and deputy secretary of the party committee of China Yangtze Power Co., Ltd. He served as a Director of China Yangtze Power Co., Ltd. from July 2018 to October 2020, a Director of China General Nuclear Power Corporation from December 2018 to January 2021, a full-time external Director of Central Enterprises since July 2020, and an independent non-executive Director of the Company since January 2021.

Mr. Tang Zhi-hong (“**Mr. Tang**”), born in 1960, is a senior engineer with a university degree. He is now an independent non-executive Director of the Company, and has now retired. Mr. Tang graduated from Jilin University and had served as secretary of party committee and president of Liaoning Jinzhou branch of the People’s Bank of China and Director of Jinzhou branch of the State Administration of Foreign Exchange, vice president of Shenyang branch, president of Lanzhou branch, secretary and president of the party committee of Shanghai branch, secretary and Director of the party committee of the Shenzhen management department of China Merchants Bank, member of the party committee and assistant to the president of China Merchants Bank. He had been the vice president and member of the party committee of China Merchants Bank in May 2006, retired in April 2020, and served as an independent non-executive Director of the Company since January 2021.

Mr. Zhu Hong-jie (“**Mr. Zhu**”), born in 1954, is a senior economist with a bachelor degree. He has retired as an independent non-executive Director of the Company. Mr. Zhu graduated from the Department of Planning and Statistics, Xiamen University. He served as the deputy Director, and Director of the Statistics Branch of the General Planning Division, deputy cadre of the Planning and Finance Division at the Ministry of Foreign Trade and Economic Cooperation. 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 Department 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 served as an independent non-executive Director of the Company from March 2017, and retired as an independent non-executive Director of the Company in January 2021.

Mr. Yu Wen-xing (“**Mr. Yu**”), born in 1953, is a senior engineer at professor level with a university degree. He has retired 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 an independent non-executive Director of the Company in March 2015, and retired as an independent non-executive Director of the Company in January 2021.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Tian Min (“**Mr. Tian**”), born in 1956, is a senior accountant at researcher level with a college degree, enjoys the special allowance from the State Council. He has retired as an independent non-executive Director of the Company. He was a head, deputy chief accountant, deputy general manager and chief accountant 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 accountant, deputy party committee secretary, general manager, 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 August 2017. He served as an independent non-executive Director of the Company in March 2018, and retired as an independent non-executive Director of the Company in January 2021.

SUPERVISORS

Supervisors representing shareholders

Mr. Qu Zhe (“**Mr. Qu**”), born in 1962, is a senior engineer with a postgraduate degree. He now serves as Chairman of the Supervisory Committee of the Company and a non-independent Director of Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd.. Mr. Qu graduated from Harbin Engineering University (formerly known as Harbin Shipbuilding Engineering Institute) with a master's degree. He served as various positions such as assistant engineer, business representative in Pakistan, engineer and deputy general manager of Harbin Power Station Equipment Import And Export Company, deputy manager of operation and development department, chief engineer, assistant to the general manager, executive deputy general manager, general manager, chairman and party committee secretary of Harbin Power Engineering Company Limited and the deputy general manager of the Company. He served as vice-president of the Company from March 2013 to December 2020, the assistant to the general manager of HE in April 2013 and supervisor representing shareholders and Chairman of the Supervisory Committee of the Company since January 2021. He has served as a non-independent Director of Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd. since January 2022.

Mr. Liu Wei-min (“**Mr. Liu**”), born in 1966, is a senior engineer at researcher level with a postgraduate degree and a master's degree holder. He now serves as supervisor representing shareholders of the Company and the general manager of the audit and supervision department of HE and the Company. Mr. Liu graduated from Xi'an Jiaotong University, and received an MBA degree from Harbin Institute of Technology. Mr. Liu had served as the secretary to the former general manager office of Harbin Turbine, deputy chief economist, deputy director of the administration department and director to the general manager office of Turbine Company, assistant to the general manager and party committee member of HE, deputy general manager of Electric Machinery Company, secretary of the disciplinary committee of Boiler Factory, deputy manager and manager of the audit department of HE and the Company. He has been serving as general managers of the audit and supervision department of HE and the Company since December 2019 and supervisor representing shareholders of the Company since January 2021.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Zhang Jun (“**Mr. Zhang**”), born in 1972, is a certified public accountant and senior engineer at researcher level with a postgraduate degree. He now serves as supervisor representing shareholders of the Company, and the chief accountant of Boiler Factory. Mr. Zhang graduated from the Faculty of Business of Heilongjiang, and received an MBA degree from Harbin Institute of Technology. Mr. Zhang served as deputy manager and manager of the financial planning division the Company, deputy general manager of Finance Company, chief accountant of Valve Company, chief accountant of Electric Power Equipment, chief accountant of Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd., and deputy manager of the economic operation department of HE and the Company. He has served as the chief accountant of Boiler Factory since December 2019 and supervisor representing shareholders of the Company since January 2021.

Mr. Feng Yong-qiang (“**Mr. Feng**”), born in September 1963, is a professor level senior policy advisor with a master degree. He is currently a full-time external director of Central Enterprises and has retired as the Chairman of the Supervisory Committee of the Company. He graduated from Harbin Institute of Electrical Engineering specializing in Electric Machinery, and later obtained a master degree in Business Administration from Harbin Institute of Technology. Mr. Feng joined HE in 1985, and has worked as a technician of the machinery department of the Boiler Company, the secretary of the Party Committee office, the vice secretary of the Communist Youth League, secretary, director of No. 1 Pipe Workshop, director of heavy vessel workshop, as well as the vice secretary of the Party Committee, the secretary of the Party Committee and vice chairman of the Boiler Company. He was appointed as a standing committee member of the City Committee and deputy mayor (acting) of Tongliao, Inner Mongolia Autonomous Region since November 2001. He has been the deputy general manager of the Company in April 2004, the vice secretary of the Party Committee of HE in October 2008, and the vice secretary of the Party Committee of the Company in January 2009. In November 2014, he served as the representative supervisor and Chairman of the Supervisory Committee of the Company and he retired as the representative supervisor and Chairman of the Supervisory Committee of the Company in January 2021.

Mr. Chen Guang (“**Mr. Chen**”), born in 1964, a senior economist with a postgraduate degree, now serves as general manager of new energy engineering branch of Boiler Factory and has retired as the supervisor representing shareholders. Mr. Chen graduated from Xi'an Jiaotong University. He was appointed as a designer of the Design Department of the Harbin Boiler Company, 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 of No.1 Pipe Workshop of Boiler Factory. He has been the director and secretary of Safe Technology and Environmental Protection Office, and the director and secretary of Corporate Management and Development Office, and head of the Organization Department under the Party Committee and head of the United Work Front Department. He has been appointed as the general manager of new energy engineering branch of the Boiler Company since August 2019. He served as a supervisor representing shareholders of the Company from December 2009, and retired as supervisor representing shareholders of the Company since January 2021.

Mr. Zhu Peng-tao (“**Mr. Zhu**”), born in 1973, is a senior auditor with a master degree. He is currently the chief accountant of Heavy Equipment Company Limited and has retired as supervisor representing shareholders of the Company. Mr. Zhu graduated from Harbin University of Science and Technology, majoring in auditing, and then further obtained a master degree in Engineering from Harbin University of Science and Technology. Mr. Zhu served as the auditing business director of the Audit Department, and the deputy director and director of No. 1 Auditing Division under the Audit Department of HE and the Company. He has been the chief accountant of Heavy Equipment Company Limited since December 2019. He served as a supervisor representing shareholders of the Company in May 2017, and retired as supervisor representing shareholders of the Company in January 2021.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Supervisors representing employees

Mr. Yang Yu-long (“Mr. Yang”), born in 1972, is a certified public accountant and senior accountant with a bachelor degree. He now serves as a supervisor representing employees of the Company and the chief accountant of Turbine Company. Mr. Yang graduated from Shenyang University of Technology. He successively served as the deputy manager and manager of the financial planning division of Electric Machinery, deputy general manager, deputy secretary of the Party committee and secretary of the disciplinary committee of Harbin Electric and General Electric Wind Power (Jiangsu) Co., Ltd., deputy chief accountant and manager of the financial planning division of Turbine Company, assistant to the manager of the financial assets department and director of the finance office of HE and the Company. He has served as the chief accountant of Turbine Company since November 2018, and a supervisor representing employees of the Company since January 2021.

Mr. Zhao Xin (“Mr. Zhao”), born in 1978, is a senior accountant, international certified management accountant with a postgraduate degree. He now serves as a supervisor representing employees of the Company and the chief accountant of Electric Machinery Company. Mr. Zhao graduated from Anshan Iron and Steel College and later obtained a master’s degree in business administration from Harbin Institute of Technology. Mr. Zhao successively served as the deputy manager of the finance office of Boiler Company, assistant to the manager, assistant to the manager and director of the accounting department of HE and the Company’s financial assets department, and the deputy general manager and chief accountant of Finance Company. Since November 2019, he has served as the chief accountant of Electric Machinery Company and a supervisor representing employees of the Company since January 2021.

Mr. Zhang Wen-ming (“Mr. Zhang”), born in 1974, a senior political engineer at professor level with a master degree, now serves as the leader of Discipline Inspection Group appointed by the Discipline Committee of HE and has retired as a supervisor representing employees of the Company. 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 held various positions in the Turbine Company, including a technician of the material research center, secretary to the general manager office, deputy director of the technology and management division, deputy director and director of the Corporate Development and Research Center, and head of the organization department under the Party Committee. He has been the leader of Discipline Inspection Group appointed by the Discipline Committee of HE since November 2019 and served as supervisor representing employees of the Company in January 2013, and retired as supervisor representing employees of the Company in January 2021.

Mr. Zhang Jun-quan (“Mr. Zhang”), born in 1964, is a senior engineer with a bachelor degree. He is currently a supervisor representing employees of the Company, the director of the Work and Construction Department under the Party Committee of Electric Machinery Company and has retired as a supervisor representing employees of the Company. Mr. Zhang graduated from Shenyang Architectural and Civil Engineering Institute specializing in Machinery Manufacturing Process and Equipment. Mr. Zhang worked as a technician, the deputy head of technical room, deputy director and director of the Coil Factory of Harbin Electric Machinery Company, head of equipment department and head of the organization department under the Party Committee of Electric Machinery Company. He has been the head of the Work Department under the Party Committee of Electric Machinery Company in November 2018 and a director of party building department of Electric Machinery Company since August 2020. He served as a supervisor representing employees of the Company in November 2014, and retired as a supervisor representing employees of the Company in January 2021.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

SENIOR MANAGEMENT

Mr. Lu Zhi-qiang (“**Mr. Lu**”), born in 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 the deputy general manager and a standing committee member of the Party Committee 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 has served as a deputy head of the design research center, vice principal of the research institute, head of the technical management department and deputy chief engineer of Turbine Company. He served as the assistant to the general manager of Turbine Company in September 2009, deputy general manager of Turbine Company in June 2011, executive deputy general manager of Turbine Company in March 2015, general manager and deputy secretary of the Party Committee of Turbine Company 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.

Mr. Shen Tong (“**Mr. Shen**”), born in 1972, is a professor level senior engineer with a postgraduate degree. He now serves as a senior vice president and standing member of the Party committee of the Company, and deputy general manager and standing member of the Party committee of Harbin Electric Corporation. Mr. Shen graduated from Tsinghua University, and subsequently received his master’s degree from Tsinghua University. Mr. Shen has successively served as director and deputy head of the production department of Qiqihar Power Bureau, secretary to the Party group of the general manager’s department of Northeast China Power Grid Company Ltd., head of Jinzhou Ultra High Voltage Bureau, director of the general manager’s department and director of the press center of Northeast China Power Grid Company Ltd., secretary to the committee of the Communist Youth League and deputy director of the ideological and political work department of State Grid Corporation, deputy general manager and member of the Party group of State Grid Shanxi Electric Power Company*, director, general manager and deputy secretary to the Party committee of State Grid Shaanxi Electric Power Company*, chairman of the board of directors and secretary to the Party committee of State Grid Qinghai Electric Power Company*. He has served as deputy general manager and standing member of the Party committee of Harbin Electric Corporation since February 2021, and served as a senior vice president of the Company since August 2021.

Mr. Guo Yu (“**Mr. Guo**”), born in 1967, is a senior engineer with a university degree. He now serves as the vice president of the Company, chairman of the board of directors and party committee secretary of Harbin Electric International. Mr. Guo graduated from Harbin Engineering University (formerly known as Harbin Shipbuilding Engineering Institute). He served as engineer, deputy manager of operation and development department, deputy chief engineer and manager of engineering coordination department, deputy chief engineer, deputy general manager, general manager and member of party committee, party committee secretary and general manager, chairman and general manager and deputy party committee secretary of Harbin Electric International. He has been appointed as the chairman and party committee secretary of Harbin Electric International Company Limited since October 2016. He has served as the vice president of the Company since January 2021.

Mr. Qiu Xiliang (“**Mr. Qiu**”), born in 1968, is a senior engineer at researcher level with a master’s degree in engineering. He is currently the vice president of the Company, chairman and the party committee secretary of Turbine Company. Mr. Qiu graduated from the Harbin Institute of Technology and obtained a master’s degree in engineering from the Harbin Institute of Technology. Mr. Qiu had served as the deputy chief technician and deputy director of technical room of cooling branch factory, manager of cooling branch factory, manager, deputy general manager, chairman and general manager and deputy secretary of party committee of hydropower workshop of Electric Machinery Company, general manager of Power Station Service Division of the Company. Since February 2017, he has served as the general manager and secretary of the Party Branch of Power Station Service Division of the Company. He has also served as the chairman and the party committee secretary of Turbine Company since August 2020 and the vice president of the Company since January 2021.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Wang Gui (“**Mr. Wang**”), born in 1967, is a senior engineer at researcher level with a doctorate’s degree. He is currently the vice president of the Company, chairman and the party committee secretary of Electric Machinery Company. Mr. Wang graduated from Changchun Institute of Optics and Fine Mechanics and obtained a doctorate’s degree in engineering from the Harbin Institute of Technology. Mr. Wang had served as the deputy chief economist and head of project management department, manager of hydropower workshop of Electric Machinery Company. He also served as the director and general manager, chairman and general manager of Electric Power Equipment Company, deputy general manager of Electric Machinery Company, head of technology and quality department of the Company. Since August 2018, he has served as chairman and the party committee secretary of Electric Machinery Company and the vice president of the Company since January 2021.

Mr. Liu Zhi-quan (“**Mr. Liu**”), born in July 1968, is a senior accountant and certified public accountant in China with a doctor’s degree. He now serves as a chief accountant of DongFang Electric Corporation. 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. He has been an assistant to the director, the deputy director and the director of finance department of the Boiler Company, and the deputy chief accountant and head of finance department of the Group. He was appointed as the deputy general manager of the Boiler Company 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. He resigned as the senior vice president of the Company in April 2022.

Mr. Zhang Hai-quan (“**Mr. Zhang**”), born in 1961, is a retired senior engineer with an MBA degree. Mr. Zhang graduated from Harbin Institute of Electrical Engineering. Mr. Zhang has served 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. In 1998, he has been a standing committee member of the Party Committee and director of the organization department of HE and the Company. In 1999, he 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 in September 2000. He served as the Vice-President of the Company in March 2013, and resigned as vice president of the Company in January 2021.

COMPANY SECRETARY

Mr. Ai Li-song (“**Mr. Ai**”), born in 1970, is a senior economist with a master degree. He is currently the company secretary and a general manager of legal compliance department 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 Harbin Electrical Machinery Works, 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, manager of the planning and development department, director of the secretariat of the Board, deputy manager and manager of the securities and legal affairs department of HE and the Company. He has been the general manager of legal compliance department of the Company since December 2019 and the company secretary of the Company since May 2015.

PRINCIPAL ACTIVITIES

The Company 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, hydropower, 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 Company are mainly located in China, with approximate four-fifth of its revenue deriving from China during 2021.

In 2021, the revenue from export of the Company amounted to RMB3,731.97 million, representing 17.58% of the Company's operating income, representing a year-on-year decrease of RMB2,424.28 million. The Company's major regions for export included Asia and South America, which respectively amounted to RMB3,603.95 million and RMB118.49 million.

BUSINESS REVIEW

Details of a fair review of the Company's business in 2021, key financial performance indicators and possible future developments of the Company are set out in the section headed "Management Discussion and Analysis" of this Annual Report.

PRINCIPAL RISK AND UNCERTAINTIES

In 2021, with the goal of "strengthening internal control, preventing risks, and promoting compliance", the Company actively promoted risk prevention work and the integration of law, compliance, internal control, continued to improve the risk management mechanism, strengthened risk assessment and response, focused on preventing and resolving major systemic risks, and strived to improve enterprise risk management and control capabilities. The Company ensured the operation and management of the year were legal and compliant, and major risks were under control. During the year, the principal risks and countermeasures of the Company were as follows:

1. International operation risk: At present, the COVID-19 is still spreading around the world, and the possibility of risks caused by changes in the political and economic situation of the countries where foreign-related business is located continues to rise. Moreover, foreign-related contracts are usually denominated in US dollars, and exchange rate fluctuations may have a certain impact on the Company's operating performance. In this regard, the Company conducts in-depth research and analysis of overseas market policies and environment. When selecting projects, the Company tried to avoid countries or regions with greater risks in the political environment and natural environment; in the process of project implementation, the Company strictly followed the requirements of risk management and control, and did a good job of project risk assessment, identification and response; the Company continued to consolidate the management foundation for hedging foreign exchange transaction risks, and strictly controlled the risks that may be caused by exchange rate fluctuations.
2. Reform and transition risks : The Company is engaged in the equipment manufacturing industry, which is considerably influenced by national policies. The country is vigorously promoting the transformation and upgrade of industrial structure and accelerating the promotion of low-carbon economy, which poses new challenges to the Company's judgment and execution in promoting reform and transformation and adapting to changes in the external environment such as industry development and market competition.

DIRECTORS' REPORT (CONTINUED)

3. Market competition risk: The clean energy and low-carbon transformation in the "14th Five-Year Plan" provides rare opportunities for the energy equipment manufacturing industry, and also puts forward urgent requirements for the technological upgrade and leapfrogging of energy equipment manufacturing enterprises. The market competition will then become increasingly fierce. In this regard, the Company will strive for better product, better quality and better service, and win the trust of customers and enhance the probability of bid-winning by continuously promoting business and product innovation, technology research and development, improving product competitiveness, increasing market development efforts, and improving service capability levels.

SIGNIFICANT EVENTS AFFECTING THE COMPANY

Details of which are set out in Disclosure of Significant Events of the annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

In 2021, none of non-compliant events occur to the Company with respect to relevant laws and regulations that have a significant impact on the business of the Company. Relevant laws and regulations are listed as follows:

Principal Laws and

Regulations	Key scope	Compliance Measures
Civil Code of the People's Republic of China	The Company's business contract signed with customers must comply with basic requirements stipulated in the Civil Code.	<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 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.

DIRECTORS' REPORT (CONTINUED)

Principal Laws and Regulations

Key scope

Compliance Measures

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. The Company establishes a tendering procurement center to fully implement the relevant procurement and tendering policies, laws and regulations of the country and higher-level units, and organize and promote the implementation of centralized procurement tendering work.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.
Labor Law of the People's Republic of China and Labor Contract Law of the People's Republic of China	When entering inter 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.

DIRECTORS' REPORT (CONTINUED)

Employees, Major Customers and Suppliers

1. *Employees*

As of 31 December 2021, the Company had 13,982 employees. The Company had a workforce of 11,875 current employees, of which female employees totaled 1,914, accounting for 16.12%. 1,108 employees aged above 55, accounting for 9.33%; 1,708 employees aged 50–54, accounting for 14.38%, 3,469 employees aged 40–49, accounting for 29.21%, 4,456 employees aged 30–39, accounting for 37.52% and 1,134 employees aged below 29, accounting for 9.55%.

In 2021, the Company organized 959 classes in total for various trainings, with over 50,300 persons participating in.

2. *Major suppliers*

During 2021, the top five suppliers of the Company attributed 21.44% of the total purchases, of which the largest supplier accounted for 8.54% of the total purchases.

3. *Major customers*

During 2021, the Company's top five customers attributed 18.74% of total operating revenue, of which the largest customer accounted for 5.90% 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 2021 are set out in Note IX to the financial statements of this annual report.

DIRECTORS' REPORT (CONTINUED)

RESULTS

As of 31 December 2021, the operating income of the Company amounted to RMB21,225.31 million, and net profit attributable to the owners of the parent company was RMB-4,142.45 million. The results of the Company for the year ended 31 December 2021 are set out in the consolidated income statement of this annual report.

DIVIDEND

The Board did not recommend the payment of the final dividend for the year 2021.

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.

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 2021, 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 2021, the Company entered into no service contract specified in Rule 14 of Appendix 16 of the Listing Rules with Directors and Supervisors of the Company.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

As of 31 December 2021, none of the Directors or Supervisors has any interest, whether directly or indirectly, in the contracts of significance entered into by the Company.

DIRECTORS' REPORT (CONTINUED)

CONTRACTS OF SIGNIFICANCE WITH THE CONTROLLING SHAREHOLDERS OR THEIR SUBSIDIARIES

On 30 November 2021, the Company, Power Equipment Company and Jiamusi Electric, a subsidiary of HE, entered into an entrusted management agreement, to entrust Jiamusi Electric with all the businesses and assets of Power Equipment Company, with Jiamusi Electric exercising the day-to-day operating and management right of Power Equipment Company.

For details, please refer to the Company's announcement dated 30 November 2021 published on the website of the Hong Kong Stock Exchange.

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 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 2021 is as follows:

Unit: RMB

	Fees	Salaries and other benefits	Contribution to retirement benefits scheme	Total
Executive Directors				
Mr. Cao Zhi-an	0.00	0.00	0.00	0.00
Mr. Wu Wei-zhang	0.00	598,800.00	29,491.20	628,291.20
Mr. Sun Zhi-yong	0.00	538,900.00	52,571.52	591,471.52
Mr. Si Ze-fu	0.00	0.00	0.00	0.00
Mr. Zhang Ying-jian	0.00	531,400.00	29,491.20	560,891.20
Total	0.00	1,669,100.00	111,553.92	1,780,653.92
Independent Non- Executive Directors				
Mr. He Yu	0.00	55,000.00	0.00	55,000.00
Mr. Hu Jian-min	0.00	80,000.00	0.00	80,000.00
Mr. Chen Guo-qing	0.00	0.00	0.00	0.00
Mr. Tang Zhi-hong	0.00	55,000.00	0.00	55,000.00
Mr. Zhu Hong-jie	0.00	25,000.00	0.00	25,000.00
Mr. Yu Wen-xing	0.00	25,000.00	0.00	25,000.00
Mr. Tian Min	0.00	25,000.00	0.00	25,000.00
Total	0.00	265,000.00	0.00	265,000.00

DIRECTORS' REPORT (CONTINUED)

	Fees	Salaries and other benefits	Contribution to retirement benefits scheme	Total
Supervisors				
Mr. Qu Zhe	0.00	818,323.00	29,491.20	847,814.20
Mr. Liu Wei-min	0.00	625,166.00	29,491.20	654,657.20
Mr. Zhang Jun	0.00	767,678.00	29,491.20	797,169.20
Mr. Yang Yu-long	0.00	506,640.00	29,491.20	536,131.20
Mr. Zhao Xin	0.00	879,040.00	29,491.20	908,531.20
Mr. Feng Yong-qiang	0.00	0.00	0.00	0.00
Mr. Chen Guang	0.00	318,342.00	29,491.20	347,833.20
Mr. Zhu Peng-tao	0.00	469,000.00	29,491.20	498,491.20
Mr. Zhang Wen-ming	0.00	528,670.00	29,491.20	558,161.20
Mr. Zhang Jun-quan	0.00	383,694.00	29,491.20	413,185.20
Total	0.00	5,296,553.00	265,420.80	5,561,973.80

FIVE HIGHEST PAID PERSONNEL

As of 31 December 2021, the five highest paid personnel in the Company are all senior management of the Company and its subsidiaries. Remuneration of such five personnel were all over HK\$1 million but below HK\$1.5 million.

Unit: RMB

	Fees	Salaries and other benefits	Contribution to retirement benefits scheme	Total
Total remuneration of the five highest paid personnel	0	4,619,200.00	147,456.00	4,766,656.00

CONTINGENT LIABILITIES – GUARANTEES

As of 31 December 2021, total internal guarantees in favour of the Company made by the Company and its subsidiaries amounted to RMB2,253.36 million. No external guarantee was provided.

PERMITTED INDEMNITY PROVISION

As provided by applicable laws, each director of the Company is entitled to be indemnified by respective companies for all costs, charges, losses, fees and liabilities which arise from or are connected to the execution and performance of their duties according to the Articles of Association of the Company. The provision becomes effective in the financial year ended 31 December 2021 and remains in effect as at the date of this report.

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

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT INVESTMENT IN SECURITIES

For the year ended 31 December 2021, the Company had no significant investment in securities.

STAFF REMUNERATION, RETIREMENT AND BENEFITS SCHEME

In 2021, the total salaries of the Company amounted to RMB1,619.45 million. During the year, the provision of the non-planning expenses of retired employees was RMB288.19 million at one time.

In order to incentivize key employees, the Company has implemented a share appreciation rights incentive plan.

The employees of the Company participate in the government-established and state-managed retirement benefits schemes of the PRC. At the same time, the Company has adopted an enterprise annuity system in accordance with the relevant regulations, and the Company was required to contribute a certain percentage of its employees' remuneration to the retirement benefits scheme. The Company is not allowed use the forfeited contributions (if any) to reduce the existing contribution level, and no contributions to any retirement benefit schemes have been forfeited during the year ended 31 December 2021.

FIXED ASSETS

As of 31 December 2021, the fixed assets of the Company amounted to RMB5,412.53 million. Details of the movements in fixed assets of the Company are set out in Note VIII (XX) to the financial statements of this annual report.

PROFITS AVAILABLE FOR DISTRIBUTION

As of 31 December 2021, the total undistributed profits of the Company amounted to RMB4,679.67 million. Movements in the undistributed profits of the Company during the year are set out in the consolidated statement of changes in equity to the financial statements.

FINANCIAL HIGHLIGHTS

The financial highlights of the Company for the last five years are set out in the section headed "Financial Highlights" in this annual report.

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

As of 31 December 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

MAJOR LITIGATION

During 2021, the Company had no major litigation.

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 Company'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 Company has been included in the general framework of the value-added tax system reform, which allows the Company 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 Company 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 Company 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 internally monitored by the responsible departments, including finance department of planning 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 non-executive 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.

DIRECTORS' REPORT (CONTINUED)

Details of connected transactions and continuing connected transactions of the Company as of 31 December 2021 are set out Note XII(IV) to the financial statements in this annual report. The Company 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 2021, the Company 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):

Connected Transactions

Nil

Continuing Connected Transactions

1. *Product and Service Framework Agreement between the Company and HE*

On 24 December 2019, the Company entered into a product and service framework agreement with HE, pursuant to which, the Company and its subsidiaries and HE and its subsidiaries would provide products and services to each other during the three financial years from 1 January 2020 to 31 December 2022.

During the financial year from 1 January to 31 December 2021, the transaction cap for providing services by the Company and its subsidiaries to HE and its subsidiaries was RMB2 million, while the actual transaction amount was RMB0 million; the transaction cap for selling products was RMB170 million, while the actual transaction amount was RMB4.993 million; the transaction cap for receiving services from HE and its subsidiaries was RMB72 million, while the actual transaction amount was RMB36.134 million; the transaction cap for purchasing products was RMB65 million, while the actual transaction amount was RMB3.585 million. The amounts of such transactions did not exceed the cap.

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

On 24 December 2019, the Company entered into a financial service framework agreement with HE, pursuant to which, HE Finance Company Limited (the "Finance Company"), a subsidiary of the Company, would provide financial services including depository services, loan services and other financial services to the HE and its subsidiaries, from 31 December 2019 to 30 December 2022.

During the financial year from 1 January to 31 December 2021, the accumulated maximum daily balance of loan services provided by Finance Company to the HE and its subsidiaries was RMB170 million, while the actual transaction amount was RMB150 million; the transaction cap of service fees and handling fees for other financial services provided by the Finance Company to HE and its subsidiaries was RMB3 million, while the actual transaction amount was nil. The amount of such transaction did not exceed the cap.

3. *EPC Framework Agreement between the Company and HE*

On 14 February 2020, the Company entered into an EPC framework agreement with HE, pursuant to which, Harbin Electric International, a wholly-owned subsidiary of the Company, would provide EPC services to HE and its subsidiaries according to the terms and conditions contained in the EPC framework agreement, from 9 April 2020 to 31 December 2022.

DIRECTORS' REPORT (CONTINUED)

During the financial year from 1 January to 31 December 2021, the annual cap of EPC service fees was RMB1,000 million, while the actual transaction amount was RMB55.280 million. The amount of such transaction did not exceed the cap.

4. *Technology Development Framework Agreement between the Company and Harbin Power Equipment National Engineering Research Centre Co., Ltd. ("Engineering Research Centre")*

On 27 April 2020, the Company entered into a technology development framework agreement with the Engineering Research Centre, a related subsidiary of the Company, pursuant to which, the Company would entrust the Engineering Research Centre to carry out technology development in accordance with the terms and conditions contained in the technology development framework agreement, from 27 April 2020 to 31 December 2022.

During the financial year from 1 January to 31 December 2021, the annual cap of technology development expenses was RMB100 million, while the actual transaction amount was RMB78.887 million. The amount of such transaction did not exceed the cap.

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) 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 Company 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.

DETAILS OF SHARE CAPITAL

Shareholding Structure

As of 31 December 2021, 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).

DIRECTORS' REPORT (CONTINUED)

Equity Interests of Substantial Shareholders

As of 31 December 2021 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 capita	Percentage of entire share capital
As of 31 December 2021	Harbin Electric Corporation	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 2021.

Holding Range of Shareholders

The Company has sufficient public float. As of 31 December 2021, 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	1,030,952,000	60.41%	Shares owned by stated owned legal person
2	HKSCC NOMINEES LIMITED	627,357,815	36.76%	H share
3	TANG KEUNG LAM	28,000,000	1.64%	H share
4	TANG's INVESTMENTS LIMITED	17,000,000	1.00%	H share
5	LI CHI SING	376,000	0.02%	H share
6	YIP CHOK CHIU	360,000	0.02%	H share
7	CHEUNG YUM TIN	200,000	0.01%	H share
8	HO YUN HUNG	200,000	0.01%	H share
9	CHAN CHEUK YIN	140,000	0.01%	H share
10	LEE LAI HAR	140,000	0.01%	H share

DIRECTORS' REPORT (CONTINUED)

Analysis of Shareholding of Holders of H Shares

Based on the register of members as at 31 December 2021, 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	6	1,185	0.00%
1,001-5,000	40	106,000	0.02%
5,001-10,000	35	284,000	0.04%
10,001-100,000	37	1,186,000	0.18%
100,001-above	11	673,993,815	99.77%
Total	129	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.

ENVIRONMENT, SOCIETY AND GOVERNANCE

In 2021, the Company continued to realize its social responsibility of "Friendly environment, Warm Home". The Company attached great importance to the harmony and unity of economy and ecology, deeply implemented the concept of green development, strictly carried out relevant environmental protection policies, vigorously promoted energy conservation and emission reduction, deepened development in the environmental protection industry, and actively promoted the development of new energy industries; adhered to people-oriented, scientifically built the staff team, protected the rights and interests of its employees, and cared for the lives of employees; maintained effective communication with suppliers, customers, market investors and other stakeholders, took into account the interests of related parties, created a mutually beneficial and win-win relationship, and continued to promote the healthy development of the Company; insisted on giving back to the society and vigorously supported social welfare undertakings, establishing a responsible corporate image.

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

Details of which are set out in Corporate Governance Report of the annual report and Environmental, Social and Governance Report 2021.

DIRECTORS' REPORT (CONTINUED)

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements, continuing connected transactions, internal control and risk management of the Company for the year ended 31 December 2021, and discussed with the Board on the financial reporting procedures as well as the internal control system of the Company.

AUDITOR

The financial statement of the Company for the year ended 31 December 2021 has been audited by Dahua Certified Public Accountants LLP ("Dahua Certified Public Accountants"). Its remuneration of the auditing service was RMB2.20 million. The financial statements of the Company for the past three years have been audited by Dahua Certified Public Accountants. In addition, Dahua Certified Public accountants has issued an independent assurance report on the calculation of discounted future estimated cash flows in relation to the valuation of the entire equity interest in the Investment Agreement of Zesheng Environmental Protection Company entered into by Harbin Boiler Company Limited, a subsidiary of the Company, at a remuneration of RMB80,000.

Dahua Certified Public Accountants is qualified and willing to continuously serve as an auditor of the Company, and the Board proposed to re-appoint Dahua Certified Public Accountants as the auditor of the Company's 2022 financial statements at the general meeting. A resolution in relation to re-appoint the firm and to authorize the Board to fix their remuneration is to be proposed at the 2021 annual general meeting of the Company.

By Order of the Board
Harbin Electric Company Limited
Chairman
Cao Zhi-an

25 March 2022

REPORT OF THE BOARD OF SUPERVISORS

To all shareholders:

For the year ended 31 December 2021, all members of the Board of Supervisors (“the Board of Supervisors”) of 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 a supervision on the performance of the functions and powers of the directors and senior managers of the Company, attended or sat in on all the Shareholders’ meetings and Board meetings of the Company, actively participated in the examination and verification of the Company’s major decision-making matters, and inspected the Company’s operations and finances on an irregular basis, which promoted the Company’s work in a smooth manner.

In 2021, the Board of Supervisors convened three meetings. The main work contents are as follows:

No.	Summary
1	To elect the Chairman of the Board of Supervisors
2	To oversee the fulfillment of the grant conditions of the Share Appreciation Right Incentive Scheme and the grant of Share Appreciation Rights
3	To review the Company’s 2020 annual results
4	To review the Company’s 2021 interim results

The Supervisors attended 4 Shareholders’ meetings and 5 Board meetings in person, supervised the procedures of and matters in the meeting, and put forward relevant opinions and suggestions in a responsible manner.

For all related works of the Company in 2021, 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, and achieved stable and healthy development.
2. The Board of Supervisors considered that the Board of Directors and Senior Management of the Company are diligent in performing their duties and protecting 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, and 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 and the legitimate rights and interests of shareholders and employees.

REPORT OF THE BOARD OF SUPERVISORS (CONTINUED)

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 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. 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 considered and approved the Resolution in relation to Granting Share Appreciation Rights to Incentive Participants, and confirmed that pursuant to the H Share Appreciation Right Incentive Scheme (Phase I) (Draft) of Harbin Electric Co., Ltd., all the grant conditions of the Incentive Scheme for H Share Appreciation Rights of the Company (the "Incentive Scheme") have been fulfilled and agreed to determine 29 January 2021 as the grant date of the Incentive Scheme and grant a total of 48.32 million Share Appreciation Rights to 281 incentive participants who meet the grant conditions.
5. 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.

In 2022, the Board of Supervisors will continue to effectively perform its supervisory duties 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 to ensure the operation of the Company in accordance with the law, and protect the interests of the Company and Shareholders.

The Board of Supervisors sincerely appreciates the trust and support from all colleagues and the shareholders of the Company.

Harbin Electric Company Limited

The Board of Supervisors

25 March 2022

CORPORATE GOVERNANCE REPORT

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 (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 2021, the Company has fully complied with provisions set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited and, where appropriate, adopted the recommended best practices as specified therein. On 15 February 2022, Mr. Sun Zhi-yong has resigned from the position of the executive Director of the Company due to change of work arrangements, and the number of the Board members has fallen below the quorum as required under the Articles of Association of the Company, and the Company is in the process of completing the election to fill the vacancies and other subsequent works in accordance with the legal procedures as soon as possible.

The Board of the Company is responsible for the corporate governance functions. In 2021, the Board 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 continuous 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 2021.

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Composition of Board of Directors

On 29 January 2021, a new session of the Board was re-elected.

Before the re-election, the eighth session of the Board of Directors had 7 directors, of which 4 are independent non-executive directors. Members of the Board of Directors of the Company were:

Executive directors: Mr. Si Ze-fu (Chairman), Mr. Wu Wei-zhang, Mr. Zhang Ying-jian

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

After the re-election, the ninth session of the Board of Directors had 7 directors, of which 4 are independent non-executive directors. Members of the Board of Directors of the Company were:

Executive directors: Mr. Si Ze-fu (Chairman), Mr. Wu Wei-zhang, Mr. Sun Zhi-yong

Independent non-executive directors: Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing, Mr. Tang Zhi-hong

On 22 November 2021, Mr. Si Ze-fu has resigned from the positions of the chairman and executive Director of the Company as he has reached the age required for the resignation from his current positions; on 16 December 2021, Mr. Cao Zhi-an was appointed as the executive Director of the Company by the Board pursuant to the authority granted at the 2020 Annual General Meeting and elected as the chairman of the Board. As of 31 December 2021, Members of the Board of Directors of the Company were:

Executive directors: Mr. Cao Zhi-an (Chairman), Mr. Wu Wei-zhang, Mr. Sun Zhi-yong

Independent non-executive directors: Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing, Mr. Tang Zhi-hong

On 15 February 2022, Mr. Sun Zhi-yong has resigned from the position of the executive Director of the Company due to change of work arrangements. As of the date of this report, Members of the Board of Directors of the Company were:

Executive directors: Mr. Cao Zhi-an (Chairman), Mr. Wu Wei-zhang

Independent non-executive directors: Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing, Mr. Tang Zhi-hong

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 Board of Directors.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Independent non-executive directors

Prior to 29 January 2021, the independent non-executive directors of the Company were: Mr. Zhu Hong-jie, Mr. Yu Wen-xing, Mr. Hu Jian-min, Mr. Tian Min. After 29 January 2021, the independent non-executive directors of the Company are: Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing, Mr. Tang Zhi-hong.

During the reporting period, all the Independent non-executive Directors attended the meetings of the Board of Directors with a prudent and responsible principle. They fully utilized their experiences and expertise, and 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 the aspects mentioned above to further standardize the decision-making process of the Board of Directors and make 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 2021, the Board convened 12 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, 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 2021

Name of Director	Number of Attendance Required	Attendances in Person	Number of Attendance by Alternate Director	Attendance Rate
Mr. Cao Zhi-an	2	2	0	100%
Mr. Si Ze-fu	9	9	0	100%
Mr. Wu Wei-zhang	12	12	0	100%
Mr. Sun Zhi-yong	11	11	0	100%
Mr. Zhang Ying-jian	1	1	0	100%
Mr. He Yu	11	11	0	100%
Mr. Hu Jian-min	12	12	0	100%
Mr. Chen Guo-qing	11	11	0	100%
Mr. Tang Zhi-hong	11	11	0	100%
Mr. Zhu Hong-jie	1	1	0	100%
Mr. Yu Wen-xing	1	1	0	100%
Mr. Tian Min	1	1	0	100%

CORPORATE GOVERNANCE REPORT (CONTINUED)

The relevant information and latest development of the statutory, regulatory and other continuous responsibilities of the 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.

On 29 January 2021, the Company convened the extraordinary general meeting of Shareholders; on 26 May 2021, the Company convened the annual general meeting, general meeting for holders of H Shares and class meeting of Domestic Shareholders, the attendances of Directors are as follows:

Attendance of Directors at general meeting in 2021

Name of Director	Number of Attendance Required	Attendances in Person	Attendance Rate
Mr. Cao Zhi-an	0	0	-
Mr. Si Ze-fu	4	4	100%
Mr. Wu Wei-zhang	4	4	100%
Mr. Sun Zhi-yong	4	4	100%
Mr. Zhang Ying-jian	1	1	100%
Mr. He Yu	4	4	100%
Mr. Hu Jian-min	4	4	100%
Mr. Chen Guo-qing	4	4	100%
Mr. Tang Zhi-hong	4	4	100%
Mr. Zhu Hong-jie	1	1	100%
Mr. Yu Wen-xing	1	1	100%
Mr. Tian Min	1	1	100%

Term of Directors

The Directors of the Company are appointed on a term of three years.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Duties and Performance of the Board and the Management

The Board of Directors shall exercise its functions and powers under authorization by the relevant laws and regulations and general meetings, including convening general meetings, reporting in general meeting, implementing the resolutions of the general meeting, determining the Company's business plan and investment plan, preparing the Company's annual financial budget, final accounts, profit distribution plan, and the appointment and removal of major personnel. In 2021, the Board of the Company made decisions discreetly after solemn discussions, and encouraged all directors to commit their duties by different methods, such as holding board meetings and communication. The Company encourages the directors with different opinions to express their own concerns and discuss these matters in sufficient depth. Every Director has devoted sufficient time and effort to explore the development of the Company, ensuring the correctness of the Company's development strategy and direction, so as to safeguard the interests of shareholders.

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 2021, the management of the Company takes its responsibilities seriously and conscientiously by strictly implementing the resolutions passed by the Board, and makes every effort to coordinate the pandemic prevention and control as well as the production and operation.

Training of the Directors

During 2021, the Company actively organized the trainings 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, to ensure the Directors continue to contribute to the Board with comprehensive information and where necessary.

During 2021, the directors of the Company participated in the advanced seminar for directors and supervisors of the companies listed inside and outside of China organized by Hong Kong Institute of Chartered Secretaries, during which they received training on director's ongoing responsibilities and obligations and practices, and learned special courses such as ongoing responsibilities of directors of listed companies and penalties for violations, information disclosure and material insider transactions, as well as corporate governance and duty performance of directors. The directors of the Company participated in the seminar on the construction of the board of directors of central enterprises and the training course for external directors and board secretaries of central enterprises held by the SASAC, and attended courses on improving corporate governance of state-owned enterprises and building a modern enterprise system with Chinese characteristics. In 2021, the directors of the Company received an aggregate of above 100 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

CHAIRMAN AND PRESIDENT

From 1 January to 22 November 2021, the chairman of the Company was Mr. Si Ze-fu. On 22 November 2021, Mr. Si Ze-fu has resigned from the positions of the chairman of the Company; on 16 December 2021, Mr. Cao Zhi-an was elected as the chairman of the Board by the Board.

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 production, operation, and management of the Company, to exercise functions and powers as authorized by the Board and report to the Board.

There were no financial, business, family or other material or relevant relationships among the Chairman and the President of the Company.

SPECIAL COMMITTEES UNDER THE BOARD

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

During 2021, the meetings convened by the special committees under the Board included 4 Nomination Committee meeting, 2 Remuneration Committee meetings, 7 Audit Committee meetings, and 6 Strategy Development Committee meetings. Each Director has attended the meetings of the committee in which he/she acted as a member in person, 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 2021

Name of Director	Nomination Committee			Remuneration Committee			Audit 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. Cao Zhi-an												
Mr. Si Ze-fu	4	4	100%									
Mr. Wu Wei-zhang										6	6	100%
Mr. Sun Zhi-yong	4	4	100%									
Mr. Zhang Yingjian												
Mr. He Yu	3	3	100%	2	2	100%	7	7	100%	6	6	100%
Mr. Hu Jian-min	4	4	100%	2	2	100%	7	7	100%	6	6	100%
Mr. Chen Guo-qing	3	3	100%	2	2	100%	7	7	100%	6	6	100%
Mr. Tang Zhi-hong	3	3	100%	2	2	100%	7	7	100%	6	6	100%
Mr. Zhu Hong-jie												
Mr. Yu Wen-xing												
Mr. Tian Min	1	1	100%									

CORPORATE GOVERNANCE REPORT (CONTINUED)

Nomination Committee

The main responsibilities of the Nomination Committee 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.

As of 31 December 2021, the members of the Nomination Committee included Mr. Cao Zhi-an, Mr. Sun Zhi-yong, Mr. He Yu, Mr. Hu Jianmin, Mr. Chen Guo-qing and Mr. Tang Zhi-hong; and two thirds of the members of the Nomination Committee were independent non-executive directors, Chairman of the Company, Mr. Cao Zhi-an being the chairman of the Committee.

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.

In 2021, the Nomination Committee convened four meetings and accomplished the following key tasks:

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

1	Nominating Mr. Guo Yu, Mr. Qiu Xiliang and Mr. Wang Gui as Vice Presidents of the Company
2	Listening to the management of the Company's officers
3	Nominating Mr. Shen Tong as Senior Vice President of the Company
4	Nominating Mr. Cao Zhi-an as an executive Director of the Company

Remuneration Committee

The main responsibilities of the Remuneration Committee 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 2021, the members of the Remuneration Committee were Mr. He Yu, Mr. Hu Jianmin, Mr. Chen Guo-qing and Mr. Tang Zhi-hong, all of whom are independent non-executive Directors, an independent non-executive director of the Company, Mr. He Yu being the chairman of the Committee.

In 2021, the Remuneration Committee convened a total of 2 meetings and accomplished the following key tasks:

No.	Summary of Work
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1	Considering the Company's performance appraisal exercise
2	Considering the management of the Company's total payroll

CORPORATE GOVERNANCE REPORT (CONTINUED)

Audit Committee

The main responsibilities of the Audit Committee 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.

As of 31 December 2021, the members of the Audit Committee were Mr. Tang Zhi-hong, Mr. He Yu, Mr. Hu Jianmin and Mr. Chen Guo-qing, all of whom are independent non-executives, an independent non-executive director of the Company, Mr. Tang Zhi-hong being the chairman of the Committee.

In 2021, the Audit Committee held a total of 7 meetings and accomplished the following key tasks:

No.	Summary of Work
1	Considering and approving the contents in Annual Report of 2020
2	Considering and approving the Company's profit distribution plan for 2020
3	Considering and approving the Company's self-assessment report of 2020 on internal control and risk management
4	Considering and approving the Company's contents of Interim Report of 2021
5	Considering and approving the Company and its subsidiaries' financing and loan matters
6	Considering and approving the Company and its subsidiaries' financial assets impairment provision verification
7	Considering and approving the matters in relevant Connected Transactions
8	Receiving reports on the Company's comprehensive risk management

The Audit Committee has reviewed the financial statements included in the 2021 Annual Report, confirmed that these financial statements were prepared in accordance with China Accounting Standards and fairly presented the financial positions and results of the Company for the year ended 31 December 2021.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Strategy Development Committee

The main responsibilities of the Strategy Development Committee 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 2021, the members of the Strategy Development Committee were Mr. Wu Wei-zhang, Mr. He Yu, Mr. Hu Jianmin, Mr. Chen Guo-qing and Mr. Tang Zhi-hong and Mr. Wu Wei-zhang, an executive director, was the chairman of the Committee.

In 2021, the Strategy Development Committee held a total of 6 meetings and accomplished the following key tasks:

No.	Summary of Work
1	Considering and approving the Company and its subsidiaries' major investment matters
2	Considering and approving the 2020 Corporate Governance Report
3	Considering and approving the equity disposal of the subsidiaries
4	Considering and approving the changes of the business scope and the amendment of the Articles of Association of the subsidiaries

The Strategy Development Committee 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 2021, the Company fully complied with the provisions in the Corporate Governance Code contained in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong and, when appropriate, adopted the recommended best practices as specified therein.

AUDITORS AND THEIR REMUNERATION

In 2021, the audit business remuneration of Da Hua Certified Public Accountants (special general partnership), the auditor of the Company was RMB2.2 million. In addition, Da Hua Certified Public Accountants prepared an independent assurance report on the calculation of the discounted future estimated cash flow related to the valuation of the entire equity of the Company's subsidiary, Boiler Company, in relation to the entering into of the "Investment Agreement of Zesheng Environmental Protection Company". The remuneration was RMB80,000.

Da Hua Certified Public Accountants (special general partnership), together with the Audit Committee of the Board have reviewed the financial statements included in the 2021 Annual Report and been convinced that the financial statements were prepared in accordance with the PRC Accounting Standards and fairly presented the financial positions and performance of the Company for the year ended 31 December 2021.

The Board proposed to the general meeting to renew the appointment of Da Hua Certified Public Accountants (special general partnership) as the auditor of the financial statements of the Company in 2022.

CORPORATE GOVERNANCE REPORT (CONTINUED)

COMPANY SECRETARY

In 2021, 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 2021, Mr. Ai participated in no less than 15 hours of professional training.

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 3% 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.

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

- (1) 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.
- (2) 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, and 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, change of director, major acquisitions of subsidiaries in a timely manner and enhancing the transparency of the Company.

In 2021, the Company through spot meeting and teleconference communicated, with a view to updating the investors' information on the Company's latest development and prospects, and in turn strengthening the relationship with the investors.

The office 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.

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 2021, the Company has reviewed the risk management and internal control system as well as risks and has completed its self-assessment report on internal control and risk management and then approved by the Audit Committee of the Board.

The Board of Directors and the Audit Committee confirm that: as of 31 December 2021, 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 provisions on the risk management and internal control system in the Corporate Governance Code.

INDEPENDENT AUDITORS' REPORT

D.H.S.Z[2022] NO.000909

To the shareholders of Harbin Electric Company Limited:

I. AUDIT OPINION

We have audited the accompanying financial statements of Harbin Electric Company Limited (hereafter, the "Company"), which comprise the consolidated and parent company's balance sheets as at 31 December, 2021, the consolidated and parent company's income statements as at 31 December, 2021, 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 2021, the Company's operating results and cash flow.

II. BASIS OF FORMING THE AUDIT OPINION

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 enough and appropriate to provide the basis for the publication of the audit opinion.

III. KEY AUDIT ITEMS

The key audit item is based on our professional judgment that is the most important issue in the current financial statements audit. The response to these items is based on the audit of the financial statements as a whole and the formation of an audit opinion. We do not comment on these items individually.

We confirm that the following items are the key audit items that need to be communicated in the audit report.

1. Revenue Recognition
2. Impairment of Accounts Receivable

INDEPENDENT AUDITORS' REPORT (CONTINUED)

1. Revenue Recognition

1.1 Description

Please refer to Note IV (XXXI) and Note VIII(XLVII) of the financial statements. Harbin Electric recognized operating income of RMB21,225,312,673.12 in 2021. Harbin Electric recognizes revenue according to the performance period and the performance time point respectively. The completeness and accuracy of revenue recognition has a significant impact on Harbin Electric's operating results. At the same time, the recognition of revenue according to the performance period involves significant judgments and estimates by the management, which may affect whether Harbin Electric recognizes revenue in the appropriate accounting period according to the performance period. Therefore, we identified the related revenue recognition as a key audit matter.

1.2 Audit Response

Our important audit procedures for Harbin Electric's revenue recognition include:

- 1.2.1 We evaluated the design rationality of relevant internal control, and tested the effectiveness of key control implementation.
- 1.2.2 According to the revenue recognition accounting policy, we checked and reviewed the relevant major contracts and key contract terms.
- 1.2.3 We sampled the contract and costed budget data on which the management's estimated total revenue and estimated total cost are based, and evaluate whether the management's estimate was reasonable and enough.
- 1.2.4 We sampled sales contracts, invoices, transportation documents, progress confirmation documents and other supporting materials to assess the authenticity and accuracy of the actual costs incurred.
- 1.2.5 We conducted sampling inspection on business documents such as contracts, invoices, warehousing receipts and exit permits to verify the rationality and integrity of revenue recognition at the time of performance.
- 1.2.6 We selected samples to review the project completion schedule and checked the accuracy of relevant revenue recognition.

Based on the audit work performed, we believe that the relevant judgments and estimates of revenue recognition by management are reasonable.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

2. Impairment of Accounts Receivable

2.1 Description

Please refer to Notes IV (XIII) and Notes VIII (IV), (V), (VI) and Notes (VII) of the financial statements, As of December 31, 2021, the total balance of Harbin Electric's notes receivable, accounts receivable, prepayments and other receivables was RMB20,324,728,364.73, and the total bad debt provision was RMB5,043,317,819.55. As the determination of the recoverability of receivables requires management to identify items and objective evidences that have been impaired, assess the expected future cash flows and determine their present value, it involves management's use of significant accounting estimates and judgments, and should be The collectability of receivables is important to financial statements. Therefore, we identified the impairment of receivables as a key audit matter.

2.2 Audit Response

The important audit procedures we have implemented for the impairment of receivables include:

- 2.2.1 We evaluated and tested the design and operation effectiveness of internal control related to customer credit risk assessment and receivables recovery process related to the daily management and recoverability assessment of receivables.
- 2.2.2 We reviewed the judgment and estimation of the management in assessing the recoverability of receivables, and pay attention to whether the management has fully identified the items that have been impaired.
- 2.2.3 We selected receivables with significant amount or high risk and tested the recoverability independently. We verified the reasonableness of the time point and amount of provision for bad debts.
- 2.2.4 We conducted a spot check on the receivables for which bad debt reserves were accrued by the management according to the combination of credit risk characteristics, and evaluated the reasonableness of the management's bad debt reserves.
- 2.2.5 We had assessed whether the management's accounting treatment and presentation and disclosure of impairment of receivables in the financial statements on December 31, 2020 were appropriate.

Based on the audit work performed, we believe that the relevant judgments and estimates on the impairment of receivables by management are reasonable.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

V. 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 2021 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 while considering whether other information is materially inconsistent with the financial statements or what we have learned during 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 item.

VI. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE 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 items 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.

VII. AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Our objective is to obtain reasonable assurance as to whether the financial statements are free from material misstatement, whether due to frauds or errors, and issue an audit report with audit opinion. Reasonable assurance is a high-level assurance, but there is no guarantee that a material misstatement will always be found in the audit performed in accordance with the auditing standards. Misstatements may be caused by fraud or error.

Misstatements are material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users based on the financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

During the performance of our audit in accordance with the auditing standards, we use professional judgment and maintain professional skepticism. We also perform the following procedures:

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 internally control, 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 enough, 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 of the financial statements and to assess whether the financial statements reflect the relevant transactions and events fairly.
6. Obtain audit evidence sufficient and appropriate about the financial information of the entities or business activities in Harbin Electric to express an opinion on the financial statements. We are responsible for directing, supervising and performing group audits. We accept full responsibility for our audit opinion.

We communicate with those charged with governance on matters such as the planned scope, timing and significant audit findings of the audit, including communication of internal control deficiencies of concern that we identified during our audit.

We also provide a statement to those charged with governance that we have complied with ethical requirements related to independence and communicate with those charged with governance all relationships and other matters that may reasonably be believed to affect our independence, and related safeguards, as applicable.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report unless laws and regulations prohibit public disclosure of such matters, or in rare circumstances where the adverse consequences of communicating a matter in our audit report would reasonably be expected to outweigh the benefits in the public interest, we determine The matter should not be communicated in the audit report.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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Da Hua Certified Public Accountants
(Special General Partnership)

China Certified Public Accountant : Yan Xincai
(Project partner)

China Certified Public Accountant : Fei Qiang

Beijing • China
March 25, 2022

CONSOLIDATION BALANCE SHEET

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

Items	Notes	December 31, 2021	January 1, 2021
Current assets :			
Cash and bank	VIII(I)	13,601,882,949.85	12,248,710,271.39
△Settlement reserve			
△Due from banks and other financial institutions	VIII(II)	1,160,000,000.00	676,000,000.00
Transactional financial assets	VIII(III)	1,586,755.20	201,804,166.47
☆ Financial assets at fair value through profit and loss			
Derivative assets			
Notes receivable	VIII(IV)	2,673,559,748.96	3,449,736,818.53
Accounts receivable	VIII(V)	7,247,643,005.32	6,150,804,226.22
Receivables for financing			
Prepayments	VIII (VI)	4,053,396,852.51	2,943,908,354.75
△Premium receivable			
△Reinsurance premium receivable			
△Reinsurance reserve receivable			
Other receivables	VIII(VII)	1,320,694,485.73	1,121,689,573.11
Including:Dividend receivable	VIII(VII)		
△Buying back the sale of financial assets	VIII(VIII)	1,600,000,000.00	1,500,000,000.00
Inventories	VIII(IX)	9,277,188,524.26	8,245,995,247.86
Including:raw materials		2,929,891,292.03	2,876,563,564.28
Merchandise inventories(finished goods)		392,202,142.70	339,640,064.19
Contract assets	VIII(X)	9,376,793,737.57	11,230,143,320.48
Held-for-sale assets			
Current portion of non-current assets	VIII(XI)	532,462,521.58	
Other current assets	VIII(XII)	655,929,163.44	909,520,855.73
Total current assets		51,501,137,744.42	48,678,312,834.54

CONSOLIDATION BALANCE SHEET

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

Items	Notes	December 31, 2021	January 1, 2021
Non-current assets :			
△ Loans and advances issued	VIII(XIII)	31,200,000.00	24,593,595.00
Debt investments			
☆ Available-for-sale financial assets			
Other debt investments	VIII(XIV)	—	299,978,100.00
☆ Held-to-maturity investments			
Long-term receivables	VIII(XV)	251,453,934.46	294,242,908.47
Long-term equity investments	VIII(XVI)	380,662,063.58	394,669,474.11
Other equity instruments investments	VIII(XVII)	253,742,400.98	571,317,537.94
Other non-current financial assets	VIII(XVIII)	—	167,567,126.04
Investment property	VIII(XIX)	192,097,586.49	202,575,484.38
Fixed assets	VIII(XX)	5,412,526,694.03	5,645,998,218.56
Including: Cost		14,931,804,461.28	14,643,182,941.70
Accumulated depreciation		9,469,795,888.44	8,950,135,400.59
Impairment		49,481,878.81	47,049,322.55
Construction in progress	VIII(XXI)	750,210,600.69	114,308,312.64
productive biological assets			
Oil and gas assets			
The right-of-use assets			
Intangible assets	VIII(XXII)	961,518,817.12	968,448,496.00
Development disbursements	VIII(XXIII)	106,224,822.46	53,460,949.36
Goodwill	VIII(XXIV)	23,919,751.92	
Long-term deferred expenses	VIII(XXV)	7,488,107.98	7,733,999.22
Deferred tax assets	VIII(XXVI)	738,010,696.54	538,049,449.57
Other non-current assets			
Including: authorised reserve material			
Total non-current assets		9,109,055,476.25	9,282,943,651.29
Total assets		60,610,193,220.67	57,961,256,485.83

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION BALANCE SHEET

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

Items	Notes	December 31, 2021	January 1, 2021
Current liabilities :			
Short-term borrowings	VIII (XXVII)	5,223,060,625.25	5,140,606,340.72
△Borrowings from central bank		68,654,568.37	106,625,035.00
△Placement from banks and other financial institutions			
Transactional financial liabilities			
☆Financial liabilities at fair value through profit and loss			
Derivative liabilities			
Notes payable	VIII(XXVIII)	7,257,666,848.12	6,275,459,425.43
Accounts payable	VIII(XXIX)	13,875,963,319.42	12,979,384,960.79
Advances from customers			
Contract liabilities	VIII(XXX)	15,045,611,306.96	12,017,553,327.95
△Securities sold under agreement to repurchase			
△Deposits and placements from other financial institutions	VIII(XXXI)	365,927,085.43	467,991,744.67
△Securities brokering			
△Securities underwriting			
Employee benefits payable	VII(XXXII)	527,038,717.74	538,332,153.08
Including:salary payable	VII(XXXII)	181,109,149.95	243,839,270.44
Welfare benefits payable		18,192.00	16,968.18
#Employee bonus and welfare fund			
Taxes and surcharges payable	VIII(XXXIII)	354,342,491.05	450,081,285.12
Including:taxes payable excluding surcharges		347,839,831.60	434,074,977.60
Other payables	VIII(XXXIV)	544,545,445.84	429,757,945.73
Including:Dividend payable	VIII(XXXIV)	3,482,486.16	3,482,873.50
△Fees and commissions payable			
△Reinsurance amounts payable			
Held-for-sale liabilities			
Current portion of non-current liabilities	VIII(XXXV)	1,188,794,302.00	–
Other current liabilities	VIII(XXXVI)	463,280.00	428,655.00
Total current liabilities		44,452,067,990.18	38,406,220,873.49
Non-current liabilities :			
△Reserve of insurance contract			
Long-term borrowings	VIII(XXXVII)	1,033,066,644.43	1,884,779,453.00
Bonds payable			
including : preferred stocks			
perpetual debts			
Lease liabilities			
Long-term payable	VIII(XXXVIII)	20,419,794.29	42,881,194.29
Long-term employee benefits payable	VIII(XXXIX)	386,096,909.56	152,433,979.11
Provisions	VIII(XL)	2,259,633,261.28	1,009,074,468.47
Deferred income	VIII(XLI)	264,222,683.35	265,816,002.56
Deferred tax liabilities			
Other non-current liabilities			
Including:authorized reserve fund			
Total non-current liabilities		3,963,439,292.91	3,354,985,097.43

CONSOLIDATION BALANCE SHEET

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

Items	Notes	December 31, 2021	January 1, 2021
Total liabilities		48,415,507,283.09	41,761,205,970.92
Equity :			
Paid-in capital	VIII(XLII)	1,706,523,000.00	1,706,523,000.00
State-owned capital			
State-owned legal person's capital		1,030,952,000.00	1,030,952,000.00
Collectively owned capital			
Private capital			
Foreign capital		675,571,000.00	675,571,000.00
#Less: payback capital			
Paid-in capital (share capital)-net value		1,706,523,000.00	1,706,523,000.00
Other equity instruments			
Including: Preferred stock			
Perpetual debt			
Capital reserve	VIII(XLIII)	4,338,736,992.12	4,341,412,461.31
Less:treasury shares			
Other comprehensive income		-8,899,799.96	-20,928,123.89
Including: Currency translation reserve		-9,378,391.12	-5,330,264.04
Specialized reserve	VIII(XLIV)	43,527,398.71	41,743,525.66
Surplus reserve	VIII(XLV)	809,136,649.47	809,136,649.47
Including:statutory surplus reserve		809,136,649.47	809,136,649.47
Other surplus reserve			
#Reserve fund			
#Corporate development fund			
#Return of investment			
△General risk reserve			
Retained earnings	VIII(XLVI)	4,679,669,917.68	8,799,327,500.41
Equity attributable to parent company		11,568,694,158.02	15,677,215,012.96
* Minority interests		625,991,779.56	522,835,501.95
Total owner's equity		12,194,685,937.58	16,200,050,514.91
Total liabilities and owner's equity		60,610,193,220.67	57,961,256,485.83

Corporate representative:

Chief Accountant:

Accounting Supervisor:

BALANCE SHEET

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

Items	Notes	December 31, 2021	January 1, 2021
Current assets :			
Cash and bank		1,992,189,687.39	991,999,831.13
△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		38,405,509.64	194,830,120.36
Accounts receivable	XVI(I)	2,191,437,434.21	1,941,831,885.35
Receivables for financing			
Prepayments		6,659,797,508.92	4,026,236,132.20
△Premium receivable			
△Reinsurance premium receivable			
△Reinsurance reserve receivable			
Other receivables	XVI(II)	795,512,401.18	1,704,348,475.30
Including:Dividend receivable	XVI(II)	21,286,403.99	145,786,403.99
△Buying back the sale of financial assets			
Inventories		316,601,707.56	661,178,117.10
Including: raw materials			
Merchandise inventories(finished goods)			
Contract assets		828,564,315.04	747,023,406.79
Held-for-sale assets			
Current portion of non-current assets			
Other current assets		294,105,057.37	355,790,254.53
Total current assets		13,116,613,621.31	10,623,238,222.76

BALANCE SHEET (CONTINUED)

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

Items	Notes	December 31, 2021	January 1, 2021
Non-current assets :			
△ Loans and advances issued			
Debt investments			
☆ Available-for-sale financial assets			
Other debt investments			
☆ Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XVI(III)	7,276,698,783.49	7,291,771,560.99
Other equity instruments investments		152,000,000.00	493,984,728.96
Other non-current financial assets			–
Investment property		7,458,049.44	8,433,800.44
Fixed assets		670,447,009.20	702,673,202.99
Including: Cost		920,343,951.62	915,038,025.65
Accumulated depreciation		249,896,942.42	212,364,822.66
Impairment			
Construction in progress		199,304.40	2,136,006.28
productive biological assets			
Oil and gas assets			
The right-of-use assets			
Intangible assets		97,031,768.21	96,859,709.12
Development disbursements		24,485,109.60	21,240,813.48
Goodwill			
Long-term deferred expenses			
Deferred tax assets			
Other non-current assets			
Including: authorised reserve material			
Total non-current assets		8,228,320,024.34	8,617,099,822.26
Total assets		21,344,933,645.65	19,240,338,045.02

Corporate representative:

Chief Accountant:

Accounting Supervisor:

BALANCE SHEET (CONTINUED)

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

Items	Notes	December 31, 2021	January 1, 2021
Current liabilities :			
Short-term borrowings		1,048,730,000.00	398,730,000.00
△Borrowings from central bank			
△Placement from banks and other financial institutions			
Transactional financial liabilities			
☆Financial liabilities at fair value through profit and loss			
Derivative liabilities			
Notes payable		336,349,263.76	414,229,588.15
Accounts payable		5,032,778,122.88	3,411,500,878.76
Advances from customers			
Contract liabilities		6,494,533,887.27	4,783,625,222.91
△Securities sold under agreement to repurchase			
△Deposits and placements from other financial institutions			
△Securities brokering			
△Securities underwriting			
Employee benefits payable		112,397,236.80	180,933,933.77
Including: salary payable		105,771,601.84	175,061,601.84
Welfare benefits payable			
#Employee bonus and welfare fund			
Taxes and surcharges payable		5,396,240.49	4,076,429.75
Including: taxes payable excluding surcharges		5,396,240.49	4,076,429.75
Other payables		813,220,181.34	1,618,679,017.16
Including: Dividend payable		5,376.14	5,763.47
△Fees and commissions payable			
△Reinsurance amounts payable			
Held-for-sale liabilities			
Current portion of non-current liabilities		800,000,000.00	
Other current liabilities			
Total current liabilities		14,643,404,932.54	10,811,775,070.50

BALANCE SHEET (CONTINUED)

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

Items	Notes	December 31, 2021	January 1, 2021
Non-current liabilities :			
△ Reserve of insurance contract			
Long-term borrowings		750,000,000.00	2,050,000,000.00
Bonds payable			
including: preferred stocks			
perpetual debts			
Lease liabilities			
Long-term payable			
Long-term employee benefits payable			
Provisions		51,256,970.85	88,813,238.98
Deferred income		38,648,973.34	40,490,339.77
Deferred tax liabilities			
Other non-current liabilities			
Including: authorized reserve fund			
Total non-current liabilities		839,905,944.19	2,179,303,578.75
Total liabilities		15,483,310,876.73	12,991,078,649.25

BALANCE SHEET (CONTINUED)

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

Items	Notes	December 31, 2021	January 1, 2021
Equity:			
Paid-in capital		1,706,523,000.00	1,706,523,000.00
State-owned capital			
State-owned legal person's capital		1,030,952,000.00	1,030,952,000.00
Collectively owned capital			
Private capital			
Foreign capital		675,571,000.00	675,571,000.00
#Less: payback capital			
Paid-in capital (share capital)-net value		1,706,523,000.00	1,706,523,000.00
Other equity instruments			
Including: Preferred stock			
Perpetual debt			
Capital reserve		3,625,820,100.48	3,625,820,100.48
Less:treasury shares			
Other comprehensive income			-158,015,265.39
Including: Currency translation reserve			
Specialized reserve			
Surplus reserve		645,909,005.07	645,909,005.07
Including: statutory surplus reserve		645,909,005.07	645,909,005.07
Other surplus reserve			
#Reserve fund			
#Corporate development fund			
#Return of investment			
△General risk reserve			
Retained earnings		-116,629,336.63	429,022,555.61
Equity attributable to parent company		5,861,622,768.92	6,249,259,395.77
* Minority interests			
Total owner's equity		5,861,622,768.92	6,249,259,395.77
Total liabilities and owner's equity		21,344,933,645.65	19,240,338,045.02

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		21,569,761,574.55	23,999,703,493.48
Including: operating revenue	VIII(XLVII)	21,225,312,673.12	23,760,399,708.62
△Interest income	VIII(XLVIII)	344,448,901.43	239,303,784.86
△Premium earned			
△Fees and commissions income			
2. Total cost		25,265,460,929.82	24,377,795,080.59
Including: operating cost	VIII(XLVII)	22,203,289,221.55	21,056,908,588.88
△Interest expenses	VIII(XLVIII)	8,707,374.94	9,600,470.13
△Fees and commissions expenses	VIII(XLIX)	88,948.32	44,316.99
△Cash surrender amount			
△Net expenses of claim settlement			
△Net provisions for insurance reserves			
△Policy dividend expenses			
△Reinsurance expenses			
Taxes and surcharges	VIII(L)	162,821,235.78	167,046,550.28
Selling expenses	VIII(LI)	637,642,567.16	675,859,315.66
Administrative expenses	VIII(LII)	1,568,420,576.11	1,304,707,938.61
Research and development expenses	VIII(LIII)	670,530,779.51	976,707,037.96
Financial expenses	VIII(LIV)	13,960,226.45	186,920,862.08
Including: interest expenses		217,051,183.83	233,562,605.22
Interest income		36,998,158.16	47,077,675.59
Net exchange loss ("- for net proceeds)		-182,901,643.18	-21,696,224.40
Other costs and expenses			
Add: Other income	VIII(LV)	199,239,987.33	477,041,547.59
Investment income ("- for loss)	VIII(LVI)	44,892,619.81	76,633,822.67
Including: investment income from associates and joint ventures		14,009,966.57	5,826,738.34
Income from derecognition of financial assets at amortised cost			
△Gain on foreign exchange ("- for loss)		542.24	5,694.79
Net exposure hedging returns ("- for losses)			
Gain from fair-value changes ("- for loss)	VIII(LVII)		217,411.27
☆Credit losses ("- for loss))	VIII(LVIII)	-478,423,715.20	-71,445,008.59
Impairment on assets ("- for loss)	VIII(LIX)	-422,701,680.68	-70,549,613.94
Proceeds from asset disposal ("- for loss)	VIII(LX)	62,017,794.98	5,790,846.33

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)		-4,290,673,806.79	39,603,113.01
Add: non-operating income	VIII(LXI)	66,649,191.71	77,195,702.90
Including: Government grants		15,591,086.05	5,596,779.91
Less: non-operating expenses	VIII(LXII)	-23,757,772.06	39,840,938.92
4. Profit before tax("-" for loss)		-4,200,266,843.02	76,957,876.99
Less: income tax	VIII(LXIII)	-99,400,458.43	60,902,792.05
5. Net profit("-" for net loss)		-4,100,866,384.59	16,055,084.94
(1) By ownership			
Net profit attributable to parent company		-4,142,448,248.42	-7,280,537.53
* Profit/loss attributable to minority share-holders		41,581,863.83	23,335,622.47
(2) By going concern basis			
Continuous operating profit and loss		-4,100,866,384.59	16,055,084.94
Termination of the business profit and loss			
6. Other comprehensive income after tax		-165,785,487.23	9,935,232.98
Other comprehensive income after tax attributable to parent company		-165,834,269.48	9,978,790.73
(1) Comprehensive income not to be reclassified as profit or loss		-19,847,328.02	-83,969,464.70
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		-19,847,328.02	-83,969,464.70
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		-145,986,941.46	93,948,255.43
1. Share of other comprehensive income of an associate			
2. Net gain on debt instruments at fair value through other comprehensive income		493,242.75	-440,417.25
☆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		-142,432,057.13	103,748,011.74
8. Currency translation reserve		-4,048,127.08	-9,359,339.06
9. Other profit or loss to be reclassified			
* Other comprehensive income after tax attributable to minority share-holders		48,782.25	-43,557.75
7. Total comprehensive income		-4,266,651,871.82	25,990,317.92
Total comprehensive income attributable to parent company		-4,308,282,517.90	2,698,253.20
* Total consolidated income attributable to minority share-holders		41,630,646.08	23,292,064.72
8. Earnings per share:			
Basic earnings per share		-2.427	-0.004
Diluted earnings per share		-2.427	-0.004

Corporate representative:

Chief Accountant:

Accounting Supervisor:

INCOME STATEMENTS

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

Items	Notes	Current Period	Prior Period
1. Revenue		4,669,999,063.51	5,353,935,426.04
Including: operating revenue	XVI(IV)	4,669,999,063.51	5,353,935,426.04
△Interest income			
△Premium earned			
△Fees and commissions income			
2. Total cost		4,999,666,007.82	5,676,728,352.31
Including: operating cost	XVI(IV)	4,651,581,359.97	5,334,769,598.24
△Interest expenses			
△Fees and commissions expenses			
△Cash surrender amount			
△Net expenses of claim settlement			
△Net provisions for insurance reserves			
△Policy dividend expenses			
△Reinsurance expenses			
Taxes and surcharges		17,608,885.20	10,611,733.50
Selling expenses		47,588,435.64	67,007,879.40
Administrative expenses		144,501,701.28	164,785,349.20
Research and development expenses		91,073,162.62	54,487,624.88
Financial expenses		47,312,463.11	45,066,167.09
Including: interest expenses		75,019,187.97	78,036,688.84
Interest income		35,149,027.20	40,990,292.06
Net exchange loss ("-" for net proceeds)		-25,143.84	8,171.53
Other costs and expenses			
Add: Other income		6,506,156.68	3,771,611.45
Investment income("-" for loss)	XVI(V)	294,141,015.85	316,668,108.47
Including: investment income from associates and joint ventures		16,060,389.12	5,348,236.27
Income from derecognition of financial assets at amortised cost			
△Gain on foreign exchange ("-" for loss)			
Net exposure hedging returns ("-" for losses)			
Gain from fair-value changes ("-" for loss)			
☆Credit losses ("-" for loss))		-363,510,264.48	-68,684,600.35
Impairment on assets ("-" for loss)		-211,047,711.22	-128,762,580.26
Proceeds from asset disposal ("-" for loss)			834,262.05

INCOME STATEMENTS (CONTINUED)

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

Items	Notes	Current Period	Prior Period
3. Operating profits("-" for loss)		-603,577,747.48	-198,966,124.91
Add: non-operating income		924,843.00	255,363.00
Including: Government grants			
Less: non-operating expenses		-34,700,000.00	386,991.19
4. Profit before tax("-" for loss)		-567,952,904.48	-199,097,753.10
Less: income tax		489,653.45	147,913.44
5. Net profit("-" for net loss)		-568,442,557.93	-199,245,666.54
(1) By ownership			
Net profit attributable to parent company		-568,442,557.93	-199,245,666.54
* Profit/loss attributable to minority share-holders			
(2) By going concern basis			
Continuous operating profit and loss		-568,442,557.93	-199,245,666.54
Termination of the business profit and loss			
6. Other comprehensive income after tax		-19,847,328.02	-83,969,464.70
Other comprehensive income after tax attributable to parent company		-19,847,328.02	-83,969,464.70
(1) Comprehensive income not to be reclassified as profit or loss		-19,847,328.02	-83,969,464.70
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		-19,847,328.02	-83,969,464.70
4. Fair value changes in enterprise's own credit risk			
5. Others			

Corporate representative:

Chief Accountant:

Accounting Supervisor:

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			
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			
* Other comprehensive income after tax attributable to minority share-holders			
7. Total comprehensive income		-588,289,885.95	-283,215,131.24
Total comprehensive income attributable to parent company		-588,289,885.95	-283,215,131.24
* Total consolidated income attributable to minority share-holders			
8. Earnings per share:			
Basic earnings per share		-2.427	-0.004
Diluted earnings per share		-2.427	-0.004

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		24,511,352,247.87	22,079,206,795.17
△Net increase in deposits and placements from financial institutions		-102,064,659.24	-104,306,590.35
△Net increase in due to central banks		-37,970,466.63	106,625,035.00
△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		344,444,380.14	241,572,735.87
△Net increase of placement from banks and other financial institutions			
△Net increase in repurchasing			
△Net cash received from agent sales of securities			
Taxes and surcharges refunds		327,111,594.81	213,870,752.12
Other cash receipts related to operating activities		996,338,479.57	1,308,632,762.76
Total cash inflows from operating activities		26,039,211,576.52	23,845,601,490.57
Cash paid for goods and services		20,022,137,548.77	16,332,187,339.84
△Net increase in loans and advances		-560,175,970.78	177,577,502.03
△Net increase in deposits with central banks and other financial institutions		-12,523,282.53	159,607,066.52
△Cash paid for claim settlements on original insurance contracts			
△Net increase of due from banks and other financial institutions		540,000,000.00	-290,000,000.00
△Cash paid for interest, fees and commissions		16,777,296.65	5,745,278.26
△Cash paid for policy dividends		—	
Cash paid to and for employees		2,498,130,635.79	2,537,276,312.93
Taxes and surcharges cash payments		1,117,167,897.70	1,032,013,697.61
Other cash payments related to operating activities		1,384,154,694.14	1,910,308,680.84
Total cash outflows from operating activities		25,005,668,819.74	21,864,715,878.03
Net cash flows from operating activities		1,033,542,756.78	1,980,885,612.54

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		5,173,675,793.24	2,562,060,650.00
Cash received from investment income		94,420,255.60	164,115,919.26
Net cash received from disposal of fixed assets,intangible assets and other long-term assets		83,274,308.68	8,277,529.97
Net cash received from disposal of subsidiaries and other business units		—	
Other cash receipts related to investing activities		29,232,738.30	13,355,599.94
Total cash inflows from investing activities		5,380,603,095.82	2,747,809,699.17
Cash paid for fixed assets,intangible assets and other long-term assets		375,945,410.74	350,527,377.92
Cash payments for investments		4,029,900,000.00	3,063,489,400.00
△Net increase in pledged loans		—	
Net cash paid for acquiring subsidiaries and other business units		-379.62	277,614,400.71
Other cash payments related to investing activities		—	236,005,238.59
Total cash outflows from investing activities		4,405,845,031.12	3,927,636,417.22
Net cash flows from investing activities		974,758,064.70	-1,179,826,718.05
3. Cash flows from financing activities:			
Cash received from investments by others		36,367,940.00	866,975,100.00
Including: cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings		4,759,620,782.31	5,556,390,196.59
Other cash receipts related to other financing activities		10,000,000.00	39,030.91
Total cash inflows from financing activities		4,805,988,722.31	6,423,404,327.50

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

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

Items	Notes	Current Period	Prior Period
Cash repayments for debts		5,124,260,047.40	4,754,571,695.71
Cash payments for distribution of dividends, profit and interest expenses		325,040,273.21	297,703,653.21
Including: dividends or profit paid by subsidiaries to minority shareholders		—	
Other cash payments related to financing activities		14,463,191.01	3,748,855.22
Total cash outflows from financing activities		5,463,763,511.62	5,056,024,204.14
Net cash flows from financing activities		-657,774,789.31	1,367,380,123.36
4. Effect of foreign exchange rate changes on cash and cash equivalents		-27,602,084.47	-67,615,503.84
5. Net increase in cash and cash equivalents		1,322,923,947.70	2,100,823,514.01
Add: beginning balance of cash and cash equivalents		11,298,046,225.31	9,197,222,711.30
6. Ending balance of cash and cash equivalents		12,620,970,173.01	11,298,046,225.31

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		5,263,858,537.36	3,291,301,758.01
△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		—	
△Net cash received from agent sales of securities		—	
Taxes and surcharges refunds		41,730,882.77	395,004.68
Other cash receipts related to operating activities		575,090,933.83	758,790,101.31
Total cash inflows from operating activities		5,880,680,353.96	4,050,486,864.00
Cash paid for goods and services		4,916,691,061.49	2,978,497,078.48
△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		—	
△Net increase of due from banks and other financial institutions		—	
△Cash paid for interest, fees and commissions		—	
△Cash paid for policy dividends		—	
Cash paid to and for employees		137,630,225.31	118,161,820.23
Taxes and surcharges cash payments		28,305,742.25	48,729,828.35
Other cash payments related to operating activities		687,162,116.90	426,685,223.85
Total cash outflows from operating activities		5,769,789,145.95	3,572,073,950.91
Net cash flows from operating activities		110,891,208.01	478,412,913.09

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		581,562,413.05	250,000,000.00
Cash received from investment income		403,581,511.06	363,439,255.27
Net cash received from disposal of fixed assets,intangible assets and other long-term assets			1,397,800.00
Net cash received from disposal of subsidiaries and other business units			
Other cash receipts related to investing activities		5,050,402.78	5,572,350.00
Total cash inflows from investing activities		990,194,326.89	620,409,405.27
Cash paid for fixed assets,intangible assets and other long-term assets		13,577,045.23	15,599,580.32
Cash payments for investments		143,500,000.00	1,076,343,780.00
△Net increase in pledged loans		—	
Net cash paid for acquiring subsidiaries and other business units			
Other cash payments related to investing activities			19,515.30
Total cash outflows from investing activities		157,077,045.23	1,091,962,875.62
Net cash flows from investing activities		833,117,281.66	-471,553,470.35
3. Cash flows from financing activities:			
Cash received from investments by others Including: cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings		1,400,000,000.00	800,000,000.00
Other cash receipts related to other financing activities			
Total cash inflows from financing activities		1,400,000,000.00	800,000,000.00

CASH FLOW STATEMENT (CONTINUED)

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

Items	Notes	Current Period	Prior Period
Cash repayments for debts		1,250,000,000.00	800,000,000.00
Cash payments for distribution of dividends, profit and interest expenses		93,815,324.58	78,935,016.24
Including: dividends or profit paid by subsidiaries to minority shareholders		—	
Other cash payments related to financing activities		—	
Total cash outflows from financing activities		1,343,815,324.58	878,935,016.24
Net cash flows from financing activities		56,184,675.42	-78,935,016.24
4. Effect of foreign exchange rate changes on cash and cash equivalents		-3,308.83	-8,171.53
5. Net increase in cash and cash equivalents		1,000,189,856.26	-72,083,745.03
Add: beginning balance of cash and cash equivalents		991,999,831.13	1,064,083,576.16
6. Ending balance of cash and cash equivalents		1,992,189,687.39	991,999,831.13

Corporate representative:

Chief Accountant:

Accounting Supervisor:

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY

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

Items	Current period													
	Equity attributable to parent company										Total owner's equity			
	Paid-in capital	Preferred stock	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	ΔGeneral risk provision		Retained earnings	Subtotal	Minority interests
1. Ending balance of last year	1,706,523,000.00	-	-	-	4,314,412,461.31	-	-20,926,123.89	41,743,526.66	809,136,694.47	-	8,799,327,500.41	15,677,215,012.96	522,835,591.95	16,200,050,514.91
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	-	-	-	4,314,412,461.31	-	-20,926,123.89	41,743,526.66	809,136,694.47	-	8,799,327,500.41	15,677,215,012.96	522,835,591.95	16,200,050,514.91
3. Increase/decrease for current year "Δ" for decrease														
(1) Total comprehensive income							12,088,323.83	1,763,873.05						
(2) Owner's contributions and withdrawals of capital							-163,834,269.48							
1. Common stock contributed by owners					-2,675,463.19									
2. Capital contributed by other equity instruments holders					-2,675,463.19									
3. Share-based payment recorded in owner's equity														
4. Others														
(3) Accrual and utilization of specialized reserve														
1. Accrual of specialized reserve								1,763,873.05						
2. Utilization of specialized reserve								27,893,286.53						
(4) Profits distribution								-26,103,428.48						
1. Appropriation of surplus reserve including: statutory surplus reserve														
Discretionary surplus reserve														
Reserve fund														
Corporate development fund														
Return of investment														
Δ 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 charges carried forward to retained earnings														
5. Other comprehensive income carried forward to retained earnings														
6. Others														
4. Ending balance of current year	1,706,523,000.00	-	-	-	4,338,736,692.12	-	-8,689,799.96	43,327,398.71	809,136,694.47	-	4,679,669,917.68	11,566,694,136.02	625,991,779.56	12,194,665,937.38

Corporate representative:

Chief Accountant:

Accounting Supervisor:

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										Total owner's equity		
	Paid-in capital	Preferred stock	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	△General risk provision	Retained earnings		Subtotal	
1. Ending balance of last year	1,706,623,000.00	-	-	4,249,144,205.66	-	-30,906,914.62	41,541,755.49	809,136,649.47	-	8,804,199,937.94	15,579,688,663.94	276,526,550.73	15,856,164,184.67
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	1,706,623,000.00	-	-	4,249,144,205.66	-	-30,906,914.62	41,541,755.49	809,136,649.47	-	8,804,199,937.94	15,579,688,663.94	276,526,550.73	15,856,164,184.67
3. Increase/decrease for current year "Δ" for decrease													
(1) Total comprehensive income				92,263,255.65		9,978,790.73	201,770.17			-4,872,457.53	97,576,379.02	246,339,351.22	343,886,330.24
(2) Owner's contributions and withdrawals of capital						9,978,790.73				-7,280,537.53	2,688,253.20	23,292,864.72	25,990,317.92
1. Common stock contributed by owners													
2. Capital contributed by other equity instruments holders													
3. Share-based payment recorded in owner's equity													
4. Others													
(3) Accrual and utilization of specialized reserve													
1. Accrual of specialized reserve													
2. Utilization of specialized reserve													
(4) Profits distribution													
1. Appropriation of surplus reserve including: statutory surplus reserve													
Discretionary surplus reserve													
Reserve fund													
Corporate development fund													
Return of investment													
2. Accrual of general risk reserve													
3. Distribution to owner/shareholder													
4. Others													
(5) Transfer within owner's equity													
1. Capital reserve transferred to paid-in capital													
2. Surplus reserve transferred to paid-in capital													
3. Recover of loss by surplus reserve													
4. Defined benefit plan charges carried forward to retained earnings													
5. Other comprehensive income carried forward to retained earnings													
6. Others													
4. Ending balance of current year	1,706,623,000.00	-	-	4,341,412,461.31	-	-20,928,123.89	41,743,525.66	809,136,649.47	-	8,799,327,500.41	15,677,215,012.96	522,826,201.95	16,200,050,514.91

Corporate representative:

Chief Accountant:

Accounting Supervisor:

STATEMENTS OF CHANGES IN EQUITY

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

Items	Current period											Total owner's equity			
	Equity attributable to parent company										Minority interests				
	Paid-in capital	Preferred stock	Perpetual bonds	Others	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	ΔGeneral risk provision			Retained earnings	Subtotal	
1. Ending balance of last year Add: increase/decrease due to changes in accounting policies Increase/decrease due to corrections of errors in Prior Period Others	1,706,523,000.00				3,625,820,100.48	-153,015,265.39	-153,015,265.39	645,939,005.07	645,939,005.07	429,022,555.61	429,022,555.61	6,249,259,395.77	6,249,259,395.77		
2. Beginning balance of current year	1,706,523,000.00				3,625,820,100.48	-153,015,265.39	-153,015,265.39	645,939,005.07	645,939,005.07	429,022,555.61	429,022,555.61	6,249,259,395.77	6,249,259,395.77		
3. Increase/decrease for current year "Δ" for decrease															
(1) Total comprehensive income						153,015,265.39	153,015,265.39					-387,636,626.85	-387,636,626.85		
(2) Owner's contributions and withdrawals of capital						-19,847,328.02	-19,847,328.02					-588,938,885.95	-588,938,885.95		
1. Common stock contributed by owners															
2. Capital contributed by other equity instruments holders															
3. Share-based payment recorded in owner's equity															
4. Others															
(3) Accrual and utilization of specialized reserve															
1. Accrual of specialized reserve															
2. Utilization of specialized reserve															
(4) Profits distribution															
1. Appropriation of surplus reserve including: statutory surplus reserve															
Discretionary surplus reserve															
Reserve fund															
Corporate development fund															
Return of investment															
Δ 2. Accrue of general risk reserve															
3. Distribution to owner/shareholder															
4. Others															
(5) Transfer within owner's equity							177,882,533.41								
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 charges carried forward to related earnings															
5. Other comprehensive income carried forward to related earnings															
6. Others															
4. Ending balance of current year	1,706,523,000.00				3,625,820,100.48			645,939,005.07	645,939,005.07	-116,628,336.63	-116,628,336.63	5,861,622,788.92	5,861,622,788.92		

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													
	Equity attributable to parent company													
	Paid-in capital	Preferred stock	Perpetual bonds	Others	Capital reserve	Treasury shares	Less: comprehensive income	Specialized reserve	Surplus reserve	△General risk provision	Retained earnings	Subtotal	Minority interest	Total owner's equity
1. Ending balance of last year	1,706,623,000.00				3,625,820,100.48		-74,045,600.69	645,999,005.07	645,999,005.07		628,263,222.15	6,532,474,327.01		6,532,474,327.01
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	1,706,623,000.00				3,625,820,100.48		-74,045,600.69	645,999,005.07	645,999,005.07		628,263,222.15	6,532,474,327.01		6,532,474,327.01
3. Increase/decrease for current year "Δ" for decrease														
(1) Total comprehensive income														
(2) Owner's contributions and withdrawals of capital														
1. Common stock contributed by owners														
2. Capital contributed by other equity instruments holders														
3. Share-based payment recorded in owner's equity														
4. Others														
(3) Actual 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 charges carried forward to retained earnings														
5. Other comprehensive income carried forward to retained earnings														
6. Others														
4. Ending balance of current year	1,706,623,000.00				3,625,820,100.48		-158,015,265.39	645,999,005.07	645,999,005.07		429,022,555.61	6,249,259,395.77		6,249,259,395.77

Corporate representative:

Chief Accountant:

Accounting Supervisor:

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

I. INFORMATION ABOUT THE COMPANY

(I) History, place of registration, organizational form and address of headquarters

Harbin Electric Company Limited (the "Company") was initially and was formed through the restructuring of Harbin Electric Corporation ("HE Corporation") and its three affiliates: Harbin Electrical Machinery Works, Harbin Boiler Works and Harbin Turbine Works (the "three major power factories"). The Company was established in Harbin on October 6, 1994. The reconstruction and listing of its shares in Hong Kong with limited liabilities has been approved by the State Commission for Restructuring the Economic Systems on November 5, 1994.

The initial share capital of the Company was CNY 1,189,151,000, of which CNY 720,000,000 was held by HE Corporation, representing 60.55% of its total share capital. Offshore H Shares of CNY 469,151,000, representing 39.45% of its total share capital, was listing on the Stock Exchange of Hong Kong on 16 December 1994. After obtaining the approval by the resolution on the general meeting and by the China Securities Regulatory Commission and the approval from the Stock Exchange of Hong Kong, the Company placed a total of 93,830,000 H Shares, including 85,300,000 new shares and the domestic shares it held was decreased by 8,530,000 shares in 2005. After the completion of the placing of H Shares, the share capital of the Company was changed to CNY 1,274,451,000. After obtaining the approval by the resolution on the 2005 annual general meeting of the Company and Zheng Jian Guo He Zi [2007] No.6 of China Securities Regulatory Committee, in February 2007, the Company issued an additional of 112,590,000 overseas listed foreign shares ("H Shares"), including 102,355,000 shares and the shareholding of domestic shareholders was decreased by 10,235,000 shares. Pursuant to the approval of the State-Owned Property [2006] No.1492 issued by the State-owned Assets Supervision and Administration Commission of the State Council, the Company shall transfer 10,235,000 shares of state-owned enterprise legal person held by Harbin Electric Corporation to the National Social Security Fund Council upon the placing of its H shares. On 2 March 2007, the Company received an additional share capital of CNY 102,355,000.00 paid by overseas shareholders in their currency. Hence, the registered capital and share capital changed to CNY 1,376,806,000.00, of which CNY 701,235,000.00 were held by state-owned enterprise legal person, representing 50.93% of the total share capital. Overseas H shares amounted to CNY 675,571,000.00, representing 49.07% of the total share capital. On December 1, 2017, the shareholders' meeting approved the proposal to issue new domestic shares to Harbin Group, including 3,297,700 new shares. On December 1, 2017, the shareholders' meeting approved the proposal to issue new domestic shares to Harbin Group, including 3,297,700 new shares. On December 6, 2017, the company received an additional share capital of CNY 329,717,000.00 paid by Harbin Group in currency, and the registered capital and share capital of the company changed to CNY 1,706,523,000.00. Among them, state-owned legal person shares amounted to 1,030,952,000.00 yuan, which accounted for 60.41% of total share capital, and overseas issued H shares amounted to 675,571,000.00 yuan, which accounted for 39.59% of total share capital.

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

Legal representative: Cao Zhi-an

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

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

I. INFORMATION ABOUT THE COMPANY (CONTINUED)

(II) Nature of business and main business of the enterprise

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.

(III) Name of parent company and group headquarters

The parent company of the company is Harbin Electric Corporation.

(IV) Approval of financial statements

The financial statements were approved by the board of directors on March 25, 2022.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2021, the subsidiaries within the scope of the Company's consolidated financial statements are as follows:

Subsidiary name
Harbin Steam Turbine Plant Co., Ltd.
Harbin Electric Power Technology and Trade Co., Ltd.
Harbin Electric International Engineering Co., Ltd.
Harbin Electric Machinery Factory Co., Ltd.
HE Power Generation Equipment National Engineering Research Center Co., Ltd.
Harbin Power Plant Valve Co., Ltd. of HE Group
Harbin Boiler Factory Co., Ltd.
Harbin Electric Power Equipment Co., Ltd.
HE Group (Qinhuangdao) Heavy Equipment Co., Ltd.
Harbin Electric Group Finance Co., Ltd.
Harbin Harbin Electric Co., Ltd.
HE Group Shanxi Environmental Protection Engineering Co., Ltd.
Chengdu Sanlia Technology Co., Ltd.
HEC Leasing (Tianjin) Co., Ltd.
HE Group Biomass Power Generation (Wangkui) Co., Ltd.
HE Group Biomass Power Generation (Dehui) Co., Ltd.

The subsidiaries established by the Company in China are all limited liability companies, and none of them have publicly issued share capital and debt securities. For details, please refer to "Note 8. Business Combination and Consolidated Financial Statements" and "Note 9. Equity in Other Entities" for details of the scope and changes of the consolidated financial statements for the current period.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

III. 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. Therefore, the financial statements are prepared on the basis of the going concern assumption.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(I) Specific accounting policies and accounting estimates

The company determines specific accounting policies and accounting estimates based on the characteristics of production and operation, which are mainly reflected in the valuation method of inventories, the method for accruing expected credit losses of receivables, the depreciation of fixed assets and the amortization of intangible assets, and the timing of revenue recognition.

(II) Statement of compliance with corporate accounting standards

The financial statements prepared by the company are following 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.

(III) Accounting period

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

(IV) Reporting currency

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

(V) Accounting basis and valuation principles

The Company is based on accrual basis of accounting. The company generally adopts historical cost when measuring accounting elements. The company will provide special explanations for the measurement of other attributes such as replacement cost, net realizable value, present value or fair value according to the standards.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

1. *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.

If there is contingent consideration and the estimated liability or asset needs to be recognized, the difference between the estimated liability or asset and the subsequent contingent consideration settlement amount, adjust the capital reserve (capital premium or equity premium), and adjust the retained earnings if the capital reserve is insufficient.

2. *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.

3. *The related fees incurred for combination*

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 directly attributable to the deduction.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Preparation of consolidated financial statements

1. *Scope of consolidation*

The scope of consolidation of the company's consolidated financial statements is determined on the basis of control, and all subsidiaries are included into the consolidated financial statements.

2. *Procedure of consolidation*

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.

The consolidated financial statements offset the impact of internal transactions between the company and its subsidiaries and subsidiaries on the consolidated balance sheet to consolidated income statement, consolidated cash flow statement, consolidated statement of changes in shareholders' equity. If the view of consolidated financial statements of enterprise group is different from the recognition of the same transaction with the company or subsidiary as the accounting subject, the transaction is adjusted from the perspective of enterprise group.

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.

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.

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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements (Continued)

2. Procedure of consolidation (Continued)

(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 into 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 into 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 party is recognized as relevant profit or loss, other comprehensive income and changes in other net assets at the later of the date of acquisition of the original equity and the date when the combining and the combined parties are under joint control, and shall be written down to the opening balance retained earnings or current profit or loss in the comparative reporting period.

For acquisition of subsidiaries due to business combination involving entities not under common control during the reporting period, the opening balance of consolidated balance sheet needs not be adjusted; the revenue, expense and profit of such subsidiaries or business from the date of acquisition to the end of the reporting period are included into the consolidated income statement; the cash flows of such subsidiaries or business from the date of acquisition to the end of the reporting period are included into the consolidated cash flow statement.

In connection with imposing control over the investee not under joint control as a result of additional investment and other reasons, the equity of acquire held before acquisition date shall be remeasured by the Company at the fair value of such equity on the acquisition date and the difference between fair value and carrying amount shall be recognized as investment income in current period; if the acquirer's equity held before the acquiring date contains other comprehensive income and the other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions under the equity method, the related other comprehensive income and changes in other owner's equity shall be transferred to investment gains or losses on the date of acquisition, 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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements (Continued)

2. Procedure of consolidation (Continued)

(2) Disposal of subsidiaries or business (Continued)

1) General treatment

For disposal of subsidiaries or business during the reporting period, the revenue, expense and profit of such subsidiaries or business from the beginning of the period to the date of disposal are included into the consolidated income statement; the cash flows of such subsidiaries or business from the beginning of the period to the date of disposal are included into the consolidated cash flow statement.

Where control of the investee is lost due to partial disposal of the equity investment, or any other reasons, the remaining equity investment is remeasured to fair value at the date in which control is lost. The sum of consideration received from disposal of equity investment and the fair value of the remaining equity investment, net of the difference between the sum of the Company's previous share of the subsidiary's net assets recorded from the acquisition date or combination date and the sum of goodwill, is recognized in investment income in the period in which control is lost. Other comprehensive income or net profit and loss related to the previous equity investment in the subsidiary, changes in equity except the other comprehensive income and profit distribution, are transferred to investment income of the current period when control is lost, except the other comprehensive income as a result of the changes arising from the remeasurement of the net assets and net liabilities of the investee's defined benefit plan.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements (Continued)

2. Procedure of consolidation (Continued)

(2) Disposal of subsidiaries or business (Continued)

2) 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:

- A. These transactions are achieved at the same time or the mutual effects on each other are considered.
- B. A complete set of commercial results can be achieved with reference to the series of transactions.
- C. Achieving a transaction depends on at least achieving of one of the other transactions.
- D. 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 into 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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VII) Preparation of consolidated financial statements (Continued)

2. Procedure of consolidation (Continued)

(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.

(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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Classification of joint venture arrangements and accounting treatment

1. *Joint venture arrangements classification*

The Company divides the joint venture arrangement into joint operation and joint venture according to the structure of the joint venture arrangement, the legal form and the terms agreed in the joint venture arrangement, other relevant facts and circumstances.

Joint venture arrangements that have not been agreed upon by a separate subject shall be divided into joint ventures. Joint venture arrangements concluded by a separate subject shall normally be divided into joint ventures. However, the joint venture arrangement that there is conclusive evidence meets any of the following conditions and in conformity with the relevant laws and regulations shall be divided into joint venture:

- (1) The legal form of the joint venture arrangement indicates that the joint venture party has rights and obligations respectively the relevant assets and liabilities in the arrangement.
- (2) The terms of the contract of the joint venture arrangement stipulate that the joint venture party shall have rights and obligations respectively to the relevant assets and liabilities in the arrangement.
- (3) Other relevant facts and circumstances indicate that the joint venture party has rights and obligations respectively to the assets and liabilities in the arrangement, such as the joint venture party having almost all the outputs associated with the joint venture arrangement, and the settlement of the liabilities in the arrangement continues to depend on the support of the joint venture party.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VIII) Classification of joint venture arrangements and accounting treatment (Continued)

2. Joint venture accounting treatment

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 assets held individually and the assets held jointly by their shares recognized.
- (2) The liabilities assumed individually and the liabilities assumed jointly by their shares recognized.
- (3) Income from the sale of their share of jointly operated outputs recognized;
- (4) The income generated by the joint operation due to the sale of the output according to the company's share recognized;
- (5) The expenses incurred separately and the expenses incurred in joint operation according to their shares recognized.

The company invests or sells assets to the joint operation (except that the asset constitutes a business). Before the asset is sold by the joint operation to a third party, only the part of the profits and losses resulting from the transaction are attributed to other parties involved in the joint operation. If the assets invested or sold have suffered impairment losses in accordance with the "Accounting Standards for Business Enterprises No. 8-Impairment of Assets", the company shall recognize the loss in full.

The company purchases assets from joint operation (except that the asset constitutes a business). Before selling the assets to a third party, only the part of the profits and losses resulting from the transaction are attributed to other parties involved in the joint operation. If the purchased assets have suffered impairment losses in accordance with the "Accounting Standards for Business Enterprises No. 8-Impairment of Assets", the company shall recognize the losses according to the share assumed.

The Company does not have joint control to the joint operation. If the company enjoys the assets related to the joint operation and assumes the liabilities related to the joint operation, the accounting treatment shall still be conducted according to the above principles, otherwise, the accounting treatment shall be conducted in accordance with the relevant enterprise accounting standards.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(IX) 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.

(X) 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 into 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. The foreign currency financial statements resulting from the above conversions are translated into other comprehensive income.

When disposing of overseas operations, the conversion difference between listed in other comprehensive income items in the balance sheet and the foreign currency financial statements related to the overseas operations shall be converted into the profits and losses of the current period of disposal from other comprehensive income items. When the disposal of part of the equity investment or other reasons leads to a reduction in the proportion of overseas operating equity held but without loss of control over overseas operations, the foreign currency statement translation difference related to the overseas operating disposal portion will be vested in minority shareholders' equity and not transferred to current profit or loss. When disposing of part of the equity of an overseas operation as an associate or joint venture, the conversion difference converted with the foreign currency statement related to the overseas operation is transferred to the current profit or loss in proportion to the disposal of the overseas operation.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments

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

1. *Classification of the financial instruments and measurement*

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 as follow:

- (1) Financial assets measured at amortized cost,
- (2) Financial assets measured at fair value and whose changes are included into other comprehensive income, and
- (3) Financial assets measured at fair value through profit or loss.

Financial assets are measured at fair value at the time of initial recognition, but accounts receivable or notes receivable arising from the sale of goods or the provision of services do not contain material financing components or do not take into account financing components not exceeding one year, the initial measurement shall be measured at the transaction price.

For financial assets measured at fair value and whose changes are recorded into the profits and losses of the current period, the related transaction expenses are directly recorded into the profits and losses of the current period, and the related transaction expenses of other categories of financial assets are recorded into their initial recognition amount.

The subsequent measurement of financial assets depends on their classification, and all affected related financial assets are reclassified if and only if the company changes the business model of managing financial assets.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (Continued)

1. Classification of the financial instruments and measurement (Continued)

(1) Classified as financial assets measured at amortized cost

The contractual provisions of the financial asset stipulate that the cash flow generated on a specific date is only the payment of principal and interest based on the outstanding principal amount, and the business model for managing the financial asset is to collect contractual cash flow as the goal, then the company classifies the financial assets as financial assets measured at amortized cost. Financial assets measured at amortized cost for the company include notes receivable and accounts receivable, other receivables, long-term receivables, and debt investment and so on.

The Company adopts the real interest rate method to recognize the interest income of such financial assets, and carries on the follow-up measurement according to the amortization cost. The gains or losses arising from the impairment or termination of the recognition or modification shall be recorded into the profits and losses of the current period.

(2) Classified as financial assets measured at fair value and whose changes are included into other comprehensive income

The contractual provisions of the financial asset stipulate that the cash flow generated on a specific date is only the payment of principal and interest based on the outstanding principal amount, and the business model for managing the financial asset is to collect contractual cash flow and sell the financial asset as the goal, then the company classifies the financial assets as financial assets measured at fair value and whose changes are included into other comprehensive income.

The Company adopts the real interest rate method to recognize interest income for such financial assets. Except that interest income, impairment loss and exchange difference are recognized as profits and losses for the current period, the changes in fair value are recorded into other comprehensive income. When the financial asset is terminated for recognition, the accumulated gains or losses previously credited to other consolidated income are transferred from other comprehensive income and recorded into the current profit or loss.

Notes receivable and accounts receivable that are measured at fair value and whose changes are included into other comprehensive income are reported as receivable financing, and other such financial assets are reported as other debt investments, of which other debt investments that are due within one year from the date of the balance sheet are reported as non-current assets that are due within one year and other debt investments that are due within one year are reported as other current assets.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(VI) Financial instruments (Continued)

1. Classification of the financial instruments and measurement (Continued)

- (3) *Designated as financial assets measured at fair value and whose changes are included into other comprehensive income*

At the time of initial recognition, the company may irrevocably designate non-trading equity instrument investments as financial assets measured at fair value and whose changes are included into other comprehensive income based on individual financial assets.

Changes in the fair value of such financial assets are included in other comprehensive income, and no impairment provision is required. When the financial asset is derecognized, the cumulative gains or losses previously included into other comprehensive income are transferred out of other comprehensive income and included into retained earnings. During the period of the Company's investment in the equity instrument, the right of the Company to collect dividends has been established, and the economic benefits associated with dividends are likely to flow into the Company, and the amount of dividends can be reliably measured, the dividend income is recognized and included into the current profit and loss. The company reports such financial assets under other equity instruments investments.

- (4) *Classified as financial assets measured at fair value through profit or loss*

An equity instrument investment that meets one of the following conditions is a financial asset measured at fair value and its changes are included into the current profit and loss: the purpose of acquiring the financial asset is mainly for a recent sale; identifiable financial asset instruments that are centralized management at initial recognition Part of the portfolio, and there is objective evidence that there is a short-term profit model in the near future; it is a derivative instrument (except for derivatives that meet the definition of financial guarantee contracts and are designated as effective hedging instruments).

Financial assets that do not meet the requirements for classification as a financial asset measured at amortized cost or measured at fair value and whose changes are included into other comprehensive income, and are not designated as financial assets measured at fair value and whose changes are included into other comprehensive income are classified as Financial assets measured at fair value and their changes are included into the current profit and loss.

The Company adopts the fair value for such financial assets for subsequent measurement, and the gains or losses resulting from changes in fair value, as well as dividends and interest income related to such financial assets, are included into the current profit and loss.

The company reports such financial assets in transactional financial assets and other non-current financial assets based on their liquidity.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (Continued)

1. Classification of the financial instruments and measurement (Continued)

(5) Designated as financial assets measured at fair value through profit or loss

At the time of initial recognition, in order to eliminate or significantly reduce the accounting mismatch, the Company may irrevocably designate financial assets on the basis of individual financial assets as financial assets measured at fair value and whose changes included into the current profit or loss based on individual financial assets.

If the hybrid contract contains one or more embedded derivatives, and the main contract does not belong to the above financial assets, the company may designate the whole as a financial instrument measured at fair value and its changes included into the current profit and loss. Except for the following situations:

- 1) Embedded derivatives will not significantly change the cash flow of hybrid contracts.
- 2) When it is first determined whether a similar hybrid contract needs to be split, almost no analysis is needed to make sure that the embedded derivatives it contains should not be split. If the prepayment right of the embedded loan allows the holder to repay the loan in advance at an amount close to the amortized cost, the prepayment right does not need to be split.

The company uses fair value for subsequent measurement of such financial assets, and the gains or losses resulting from changes in fair value, as well as dividends and interest income related to such financial assets, are included into the current profit and loss.

The company reports such financial assets in transactional financial assets and other non-current financial assets based on their liquidity.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (Continued)

2. Classification and measurement of financial liabilities

The company classifies the financial instrument or its component parts as financial liabilities or equity instruments. Financial liabilities are classified at the time of initial recognition in accordance with the contractual terms of the issued financial instrument and the economic substance reflected, rather than only in legal form, combined with the definition of a financial liability and equity instrument. Financial liabilities are classified at the time of initial recognition as follows: financial liabilities measured at fair value and whose changes are included into current profit or loss, other financial liabilities, and derivatives designated as effective hedging instruments.

Financial liabilities are measured at fair value at the time of initial recognition. For financial liabilities that are measured at fair value and whose changes are included into the profits or losses of the current period, the related transaction costs are directly included into the profits or losses of the current period; for other types of financial liabilities, the related transaction costs are included into the initial recognition amount.

The subsequent measurement of financial liabilities depends on their classification:

(1) Financial liabilities measured at fair value through profit or loss

Such financial liabilities include transactional financial liabilities (including derivatives that are financial liabilities) and financial liabilities designated as measured at fair value at the time of initial recognition and whose changes are included into the profits or losses of the current period.

One of the following conditions is a transactional financial liability: the purpose of assuming related financial liabilities is mainly to sell or repurchase in the near future; it is part of a centrally managed portfolio of identifiable financial instruments, and there is objective evidence that the company recently adopted Short-term profit model in the near future; and it is a derivative instrument, except for derivatives designated as effective hedging instruments and derivatives that comply with financial guarantee contracts. Transactional financial liabilities (including derivatives that are financial liabilities) are subsequently measured at fair value. Except for hedge accounting, all changes in fair value are included into the current profit and loss.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (Continued)

2. Classification and measurement of financial liabilities (Continued)

(1) Financial liabilities measured at fair value through profit or loss (Continued)

At the time of initial recognition, in order to provide more relevant accounting information, the company irrevocably designates financial liabilities that meet one of the following conditions as financial liabilities measured at fair value and whose changes are included into the current profit and loss:

- 1) Ability to eliminate or significantly reduce accounting mismatches.
- 2) According to the corporate risk management or investment strategy stated in the formal written documents, carry on the management and performance evaluation of the financial liability portfolio or the financial asset and financial liability portfolio based on the fair value, and report to the key management personnel based on this within the enterprise.

The company adopts fair value for subsequent measurement of such financial liabilities. Except for changes in fair value caused by changes in the company's own credit risk, other changes in fair value are included into the current profit and loss. Unless the fair value changes caused by the company's own credit risk changes are included into other comprehensive income that will cause or expand the accounting mismatch in profit or loss, the company will include all fair value changes (including the amount of the impact of its own credit risk changes) into the current profit and loss.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (Continued)

2. Classification and measurement of financial liabilities (Continued)

(2) Other financial liabilities

In addition to the following, the company classifies financial liabilities as financial liabilities measured at amortized cost, adopts the real interest rate method for such financial liabilities, performs subsequent measurement based on amortized cost, and terminates the gains or losses arising from recognition or amortization into the current profit and loss:

- 1) Financial liabilities measured at fair value and whose changes are included into the current profit and loss.
- 2) The transfer of financial assets does not meet the conditions for derecognition or continues to be involved in the financial liabilities formed by the transferred financial assets.
- 3) Financial guarantee contracts that do not fall into the first two categories of this article, and loan commitments that fall below market interest rates do not fall into the first category of this article.

A financial guarantee contract refers to a contract that requires the issuer to pay a specific amount to the contract holder who has suffered losses when the specific debtor fails to pay the debt in accordance with the original or modified debt instrument terms. Financial guarantee contracts that are not designated as financial liabilities measured at fair value and whose changes are included into the current profit or loss are measured after initial recognition based on the higher balance of the loss preparation amount and the initial recognition amount after the accumulated amortization amount during the guarantee period.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (Continued)

3. Conditions for termination of financial assets and financial liabilities

(1) *If a financial asset meets one of the following conditions, the recognition of the financial asset shall be terminated, that is, written off from its account and balance sheet:*

- 1) Termination of the contractual right to receive cash flows from the financial asset.
- 2) The financial asset has been transferred and the transfer meets the requirements for the termination recognition of the financial asset.

(2) *Conditions for termination of financial liabilities*

If all or parts of the current obligations of financial liabilities have been discharged, the financial liability or part of it is derecognized.

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 derecognized and the new financial liabilities are recognized.

If all or parts 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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (Continued)

4. Confirmation conditions and measurement methods for financial asset transfer

When the company transfers financial assets, it assesses the degree of risk and reward of retaining the ownership of financial assets, and handles the following situations:

- (1) If almost all risks and rewards of ownership of financial assets are transferred, the financial assets are derecognized, and the rights and obligations generated or retained during the transfer are separately recognized as assets or liabilities.
- (2) If almost all risks and rewards in the ownership of financial assets are retained, the financial assets will continue to be recognized.
- (3) Where there is neither transfer nor retention of almost all risks and rewards in the ownership of financial assets (i.e. other than in the case of (1),(2) of this article), control over financial assets is maintained, as follows:
 - 1) If the control of the financial asset is not retained, the financial asset is derecognized, and the rights and obligations generated or retained during the transfer are separately recognized as assets or liabilities.
 - 2) If the control of the financial asset is retained, the relevant financial assets will be recognized and the relevant liabilities will be recognized accordingly according to the extent to which they continue to be involved in the transferred financial assets. The degree of continued involvement in the transferred financial assets refers to the degree of risk or reward for the value change of the transferred financial assets undertaken by the company.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (Continued)

4. Confirmation conditions and measurement methods for financial asset transfer (Continued)

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.

- (1) If the overall transfer of financial assets meets the conditions for derecognition, the difference between the following two amounts is included into the current profit and loss:
 - 1) The book value of the transferred financial assets at the date of termination of recognition;
 - 2) The sum of the consideration received as a result of the transfer of the financial assets corresponding to the amount of the termination recognition portion of the accumulated amount of the change in fair value that was originally directly included into other comprehensive income (the financial assets involved in the transfer are financial assets measured at fair value and whose changes are included into other comprehensive income).

- (2) If the financial assets are partially transferred and the transferred part satisfies the conditions for termination recognition as a whole, the book value of the pre-transfer financial assets as a whole shall be apportioned at their respective relative fair values at the date of transfer between the termination recognition part and the continuing recognition part, in which case the retained service assets shall be treated as part of the continuing recognition financial assets, and the difference between the following two amounts shall be recorded into the profits and losses of the current period.
 - 1) The book value of the derecognition part at the date of termination of recognition;
 - 2) The sum of the consideration for the derecognition portion and the amount of the derecognized portion of the cumulative amount of changes in fair value that is directly recognized 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 OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (Continued)

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 technique 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.

6. *Impairment of financial instruments*

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 OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (Continued)

6. Impairment of financial instruments (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: For financial instruments that have suffered credit impairment, the Group measures its loss provision based on the amount of expected credit losses for the entire life of the financial instrument.

Debt instrument investments that are measured at fair value through profit or loss are recognized its provision in other comprehensive income, and the impairment loss or gain is recognized in profit or loss, and the listed book value of the financial asset is not reduced in the balance sheet.

In the previous accounting period, the loss provision has been measured in accordance with the amount equivalent of the expected credit loss for the entire duration of the financial instrument, but on the current balance sheet date, the financial instrument is no longer in a situation where the credit risk has increased significantly since the initial recognition. The Group measures the loss provision for the financial instrument based on the amount of expected credit loss in the next 12 months on the current balance sheet date. The reversal of the loss provision resulting from the loss is recognized in profit or loss as an impairment gain. Except for financial assets that have been purchased or sourced for credit impairment.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XI) Financial instruments (Continued)

7. *Offset of financial assets and financial liabilities*

Financial assets and financial liabilities are shown separately in the balance sheet and are not offset against each other. However, the net offset is shown in the balance sheet if the following conditions are met:

- (1) The Company has a legal right to set off the recognized amount and that such legal right is currently enforceable;
- (2) The Company plans to settle the financial assets and liquidate the financial liabilities on a net basis or at the same time.

(XII) Hedge instruments

According to the hedging relationship, the company divides hedging into fair value hedge, cash flow hedge and overseas net investment hedging.

1. *Hedging instruments that meet the following conditions at the same time are processed using hedging accounting methods*

- (1) The hedging relationship only consists of eligible hedging instruments and hedged items.
- (2) At the beginning of hedging, the company officially designated hedging instruments and hedged items, and prepared written documents on hedging relationships and risk management strategies and risk management objectives for hedging.
- (3) The hedging relationship meets the requirement of hedging effectiveness.

If the hedging meets the following conditions at the same time, it is determined that the hedging relationship meets the hedging validity requirements:

- 1) There is an economic relationship between the hedged items and the hedging instruments. This economic relationship makes the value of hedging instruments and hedged items change in opposite directions due to the same hedged risk.
- 2) Among the value changes caused by the economic relationship between the hedged items and the hedging instruments, the influence of credit risk is not dominant.
- 3) The hedging ratio of the hedging relationship is equal to the ratio of the actual number of hedged items of the company to the actual number of hedging instruments, but does not reflect the imbalance of the relative weight of the hedged items and the hedging instruments. This imbalance will lead to invalid hedges and may produce accounting results that are inconsistent with the hedge accounting objectives.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XII) Hedge instruments (Continued)

2. Method of fair value hedges accounting

- (1) Gains or losses from hedging instruments are included into the current profit and loss. If the hedging instrument is hedged on a non-trading equity instrument investment (or its component) that is selected to be measured at fair value and whose changes are included into other comprehensive income, the gain or loss from the hedging instrument is included into other comprehensive income.
- (2) The gains or losses resulting from the hedged risk exposure of the hedged items are included into the current profit and loss, while adjusting the book value of the confirmed hedged item that is not measured at fair value. If the hedged item is a financial asset (or its component) measured at fair value and its changes are included into other comprehensive income, the gain or loss resulting from the hedged risk exposure is included into the current profit and loss, and its book value has been fair value measurement, no adjustment is required; if the hedged item is a non-trading equity instrument investment (or its component) that the company chooses to measure at fair value and whose changes are included into other comprehensive income, the profit resulting from the hedged risk exposure or the loss is included into other comprehensive income, and its book value has been measured at fair value, no adjustment is required.

If the hedged item is an unrecognized confirmed commitment (or part of it), the cumulative change in fair value due to the hedged risk after the hedging relationship designated is recognized as an asset or liability, and the relevant gain or loss is included profit and loss for each relevant period. When the asset or liability is acquired by fulfilling the established commitment, the initial recognition amount of the asset or liability is adjusted to include the cumulative changes in the fair value of the confirmed hedged items.

- (3) If the hedged item is a financial instrument (or its component) measured at amortized cost, the adjustment to the book value of the hedged item is amortized at the real interest rate recalculated on the amortization date and is included into the current period profit and loss. The amortization may start from the adjustment date, but not later than the time when the hedged gains and losses are adjusted for the termination of the hedged item. If the hedged item is a financial asset (or its component) measured at fair value and its changes are included into other comprehensive income, the accumulated recognized hedging gains or losses are amortized in the same manner and are included into the current period profit and loss, but does not adjust the book value of financial assets (or their components).

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XII) Hedge instruments (Continued)

3. Method of Cash flow hedges accounting

- (1) The part of gains or losses generated by the hedging instrument are as the effective hedging, which is regarded as the cash flow hedging reserve, and are included into other comprehensive income. The amount of cash flow hedge reserve is determined according to the lower of the absolute amounts of the following two items:
 - 1) Cumulative gains or losses of hedging instruments since hedging;
 - 2) The cumulative change in the present value of the expected future cash flow of the hedged item since hedging. The amount of the cash flow hedge reserve included into other comprehensive income in each period is the amount of change in the current cash flow hedge reserve.
- (2) The part of gains or losses generated by hedging instruments that are invalid for hedging (that is, other gains or losses after deducting other comprehensive income) is included into the current profit and loss.
- (3) The amount of cash flow hedge reserve shall be handled in accordance with the following provisions:
 - 1) The hedged item is an expected transaction, and the expected transaction causes the company to subsequently confirm a non-financial asset or non-financial liability, or the expected transaction of non-financial asset or non-financial liability forms a confirmed commitment which applies to the fair value hedge accounting, then the amount of the cash flow hedge reserve originally recognized in other comprehensive income is transferred out and included into the initial recognition amount of the asset or liability.
 - 2) For cash flow hedges that are not covered in the previous article, the amount of cash flow hedging reserve originally recognized in other comprehensive income is transferred out and included into the current profit and loss in the same period in which the expected cash flow of the hedge affecting the profit or loss.
 - 3) If the amount of cash flow hedge reserve recognized in other comprehensive income is a loss, and the loss is expected to be irreparable in whole or in part in the future accounting period, then the irrecoverable part is transferred out from other comprehensive income and included into the current profit and loss when the loss is expected to be irrecoverable.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XII) Hedge instruments (Continued)

4. Overseas net investment hedging

The overseas net investment hedging, including hedging of monetary items that are accounted for as part of net investment is handled by the company in accordance with regulations similar to cash flow hedge accounting:

- (1) The part of gains or losses generated by the hedging instrument is as the effective hedging is included into other comprehensive income.

When disposing of overseas operations in whole or in part, the gains or losses of the above-mentioned hedging instruments included into other comprehensive income should be transferred out accordingly and included into the current profit and loss.

- (2) The part of gains or losses generated by hedging instruments that are invalid for hedging is included into the current profit and loss.

5. Termination of hedge accounting

For any of the following situations, the use of hedge accounting will be terminated:

- (1) Due to changes in risk management objectives, the hedging relationship no longer meets the risk management objectives.
- (2) The hedging instrument has expired, been sold, the contract has been terminated or has been exercised.
- (3) There is no longer an economic relationship between the hedged item and the hedging instrument, or the value of the economic relationship between the hedged item and the hedging instrument changes, the impact of credit risk begins to dominate.
- (4) The hedging relationship no longer satisfies other conditions for the use of hedging accounting methods as stipulated in this standard. In the case of rebalancing of the hedging relationship, the enterprise should firstly consider the rebalancing of the hedging relationship, and then assess whether the hedging relationship satisfies the conditions for applying the hedging accounting method specified in this standard.

The termination of hedging accounting may affect the whole or a part of the hedging relationship. When only a part of it is affected, the remaining unaffected parts still applies hedging accounting.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XII) Hedge instruments (Continued)

6. Fair value selection of credit risk exposure

When using credit derivative instruments that are measured at fair value and whose changes are included into the current profit or loss to manage the credit risk exposure of the financial instrument (or its component parts), it is designated as a financial instrument measured at fair value and its changes are included into the current profit and loss at the time of initial recognition of the financial instrument (or its component parts) and when it has not been confirmed in subsequent measurement, and a written record is also made, but the following conditions should also be met at the same time:

- (1) The subject of credit risk exposure of financial instruments (such as borrowers or loan commitment holders) is consistent with the subject of credit derivatives;
- (2) The repayment level of financial instruments is consistent with that of the instruments to be delivered under the terms of credit derivatives.

(XIII) 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.

The enterprises involved in the provision for bad debts by applying the expected credit loss model within the scope of consolidation include: Harbin Electric Co., Ltd. and all its subsidiaries.

(1) Accounts receivable

For accounts receivable, whether or not they contain significant financing components, the company always measures its loss provision based on the amount equivalent to the expected credit loss during the entire duration, and the resulting increase or reversal of the loss provision is regarded as impairment loss Or the profit is included in the current profit and loss.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIII) Accounts receivable (Continued)

(1) Accounts receivable (Continued)

The company combines the accounts receivable according to similar credit risk characteristics (ageing), and based on all reasonable and evidence-based information, including forward-looking information, the provision for bad debts of the accounts receivable is estimated as follows:

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 an account receivable has suffered credit impairment, the company shall make provision for bad debts for the account receivable and confirm the expected credit loss.

Scope of accounts receivable not accrued bad debt provision:

- (1) Receivables between related parties.
- (2) Others such as receivables belonging to the nature of deposits, deposits, etc. from relevant state industry authorities, industry associations and other institutions, and those arising from internal departments of the enterprise or employees engaged in business operations, temporary loans, reserve funds and other receivables Unless there is conclusive evidence that there is an indication of impairment, no provision for impairment is required.

(2) Other Accounts receivable

For the measurement of impairment loss of other receivables, it shall be treated in accordance with the aforementioned measurement method of impairment loss of financial assets (excluding receivables).

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIV) Inventories

1. *Category of inventory*

Inventory refers to the finished goods or goods that the Company holds for sale in its daily activities, the products in the process of production, the materials and materials consumed in the process of production or in the process of providing services, etc. Inventory mainly includes raw materials, in-process products, finished products (inventory goods), issued goods, contract performance costs and so on.

2. *Valuation method of 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:

- (1) Actual cost: Cost of inventories is determined using the weighted average method.
- (2) 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. *Inventory system*

The perpetual inventory system is adopted.

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

- (1) Low-value consumables are a mortised using the immediate write-off method.
- (2) Packaging materials are a mortised using the immediate write-off method.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIV) Inventories (Continued)

5. *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.

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 practicable 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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XV) Contract assets

If the company has transferred the goods to the customer and has the right to receive consideration, and the right depends on factors other than the passage of time, it is recognized as a contract asset. The company's unconditional (ie, depends only on the passage of time) right to collect consideration from customers is listed separately as receivables.

For the determination method and accounting arrangement method of the expected credit losses of the contract assets of the company, please refer to Impairment of financial instruments of Note IV/(XI) .

(XVI) Long-term equity investments

1. *Determination of investment cost*

- (1) For long-term equity investments formed through business combination of entities, the specific accounting policies, please refer to the accounting arrangement methods for business combinations involving entities under common control and not under common control of Note IV/(VI).
- (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 investment costs include expenses, taxes, and other necessary expenses directly related to the acquisition of long-term equity investment.

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. Transaction costs incurred when issuing or acquiring own equity instruments can be directly deducted from equity if they are attributable to equity transactions.

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 nonmonetary 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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Long-term equity investments (Continued)

2. Subsequent measurement and recognition of profit or loss

(1) Cost method

The company is able to use the cost method accounting for long-term equity investments that are controlled by the investee, and is priced according to the initial investment cost, add or recover investment to adjust the cost of the long-term equity investment.

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 into the consideration, investment gains is recognized as the Company' shares of the cash dividends or profits declared by the investee.

(2) Equity method

The company adopts equity method to account for long-term equity investments of associates and jointly controlled entities. For part of the equity investments of associate ventures indirectly through venture capital institutions, mutual funds, trust companies or similar entities including investment-linked insurance funds, the fair value measurement is adopted and their changes are included into profit or loss.

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 acquisition date, the difference shall be charged to profit or loss for the current period.

After the company has obtained a long-term equity investment, the Company recognizes the investment income and other comprehensive income according to the shares of net profit or loss and other comprehensive income realized by the investee which it shall be entitled or shared respectively, and simultaneously makes adjustment to the carrying value of long-term equity investments; The carrying value of long term equity investment shall be reduced by attributable share of the profit or cash dividends for distribution declared by the investee. In relation to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions of the investee, the carrying value of long-term equity investments shall be adjusted and included into owner's equity.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Long-term equity investments (Continued)

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

(2) Equity method (continued)

When determining the amount of proportion of net profit or loss in the investee which it entitles, fair value of each identifiable assets of the investee at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the company, adjustment shall be made to the net profit of the investee. The unrealized profit or loss resulting from transactions between the Company and it associates or joint venture shall be eliminated in portion to the investor's equity interest of investee, based on which investment income or loss shall be recognized.

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 into the investment loss for the current period.

If the investee realizes profit in the future period, after deducting the unrecognized loss sharing amount, the company will process it in the reverse order to write down the book balance of the confirmed estimated liabilities and resume recognizing the return on the investment after deducting the book balance of the recognized expected liability and restoring the book value of other long-term equity and long-term equity investment that substantially constitute net investment of the investee.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Long-term equity investments (Continued)

3. *Determine the basis for control, joint control, and significant impact on the investee*

If the company has the power to the investee, enjoys variable returns by participating in the investee's related activities, and has the ability to use the power of the investee to affect its return amount, then the company is deemed to control the investee.

If the company collectively controls an arrangement with other participants in accordance with the relevant agreement and an activity decision having a significant impact on the return of the arrangement exists only if the agreement of the participant sharing the control is required, the arrangement is deemed to be a joint venture arrangement in which the company controls the arrangement jointly with the other participants.

If the joint venture arrangement is reached by a separate entity, when the company is judged to have rights to the net assets of the separate entity according to the relevant agreement, the separate entity is regarded as a joint venture and is accounted for using the equity method. If it is judged according to the relevant agreement that the company does not have rights to the net assets of the separate entity, the separate entity is regarded as a joint operation, and the company confirms the items related to the share of the joint operation interest and performs accounting treatment in accordance with the relevant enterprise accounting standards.

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. After one or more of the following situations and comprehensive consideration of all facts and circumstances, the company judges that it has a significant impact on the investee: (1) has a representative on the board of directors or similar authority of the invested unit; (2) Participate in the process of formulating the financial and operating policies of the investee; (3) An important transaction occurs with the investee; (4) Send management personnel to the investee; (5) Provide key technical information to the investee.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Long-term equity investments (Continued)

4. Conversion of long-term equity investment accounting method

(1) Fair value measurement transfers to equity method accounting

The equity investment originally held by the company that does not have control, joint control or significant influence on the investee, which is accounted for in accordance with the financial instrument recognition and measurement standards, and can exert significant influence or implementation on the investee due to additional investment and other reasons if they are jointly controlled but do not constitute control, the sum of the fair value of the original equity investment held in accordance with "Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments" and the new investment costs shall be accounted as the initial investment cost by the equity method accounting.

Under current enterprise accounting standards, if the equity investment originally held is classified as an available-for-sale financial asset, the difference between its fair value and book value, as well as the cumulative fair value changes originally included into other comprehensive income are transferred to the current profits and losses by equity method accounting.

Under new enterprise accounting standards, if equity investment the originally held is designated as a financial asset measured at fair value and its changes are included into other comprehensive income, the difference between its fair value and book value, as well as the cumulative fair value changes originally included into other comprehensive income are transferred to the retained earnings by equity method accounting.

The initial investment cost accounted by the equity method is less than the difference between the fair value shares of the identifiable net assets of the investee at the additional investment date determined by the new shareholding ratio after the additional investment, and the book value of the long-term equity investment is adjusted and included into the current non-operating income.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Long-term equity investments (Continued)

4. Conversion of long-term equity investment accounting method (Continued)

(2) Fair value measurement or equity method accounting transfers to cost method accounting

The company's equity investment originally held that does not have control, joint control or significant influence on the investee and is accounted by the financial instrument recognition and measurement standards, or the long-term equity investment originally held in associate and joint ventures, if it is possible to exercise control over the invested entity not under the same control due to additional investment and other reasons, when preparing individual financial statements, the sum of the book value of the original equity investment held and the additional investment cost shall be used as the initial investment cost by cost method accounting.

Other comprehensive income recognized by the equity method of equity investment held before the purchase date is accounted for on the same basis as the investee directly disposes of related assets or liabilities when disposing of the investment.

If the equity investment held before the purchase date is accounted for in accordance with the relevant provisions of the "Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments", the cumulative fair value change originally included into other comprehensive income is transferred to the current profit and loss by cost method accounting.

(3) Equity method accounting transfers to fair value measurement

If the company loses joint control or significant influence on the investee due to the disposal of part of the equity investment, the remaining equity after disposal shall be accounted for in accordance with Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments. The difference between the fair value and the book value on the date of common control or significant influence is included into the current profit and loss.

Other comprehensive income recognized by the original equity investment due to the equity method accounting shall be accounted for on the same basis as the investee's direct disposal of related assets or liabilities when the equity method accounting is terminated.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Long-term equity investments (Continued)

4. Conversion of long-term equity investment accounting method (Continued)

(4) Cost method transfers to equity method

For the company losing control of the investee due to the disposal of some equity investments, etc., when preparing individual financial statements, if the remaining equity after disposal can exercise joint control or exert significant influence on the investee, then adopt the equity method accounting, and the remaining equity is deemed to be adjusted by equity method when it is acquired.

(5) Cost method transfers to fair value measurement

For the company losing control of the investee due to the disposal of some equity investments, etc., when preparing individual financial statements, if the remaining equity after disposal cannot exercise joint control or exert significant influence on the investee, it shall be changed to accounting treatment in accordance with the relevant provisions of "Enterprise The relevant provisions of Accounting Standard No. 22 – Recognition and Measurement of Financial Instruments", and the difference between the fair value and the book value on the date of loss of control is included in the current profit and loss.

5. 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 into 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 into 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 terms, conditions and economic impact of the disposal of various transactions on the subsidiary's equity investment are in accordance with one or more of the following conditions, and multiple transactions are accounted for as a package transaction:

- (1) These transactions were concluded at the same time or in consideration of mutual influence;
- (2) These transactions as a whole can achieve a complete business result;
- (3) The occurrence of a transaction depends on the occurrence of at least one other transaction;
- (4) A transaction is uneconomical alone, but it is economical when considered together with other transactions.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Long-term equity investments (Continued)

5. Disposal of long-term equity investments (Continued)

If the enterprise loses control of the original subsidiary due to the disposal of part of the equity investment or other reasons, and it is not a package transaction, it shall distinguish between individual financial statements and consolidated financial statements for related accounting treatment:

- (1) In individual financial statements, the difference between the book value and the actual purchase price is included into the current profit and loss for the equity disposed. If the remaining equity after disposal can exercise joint control or exert significant influence on the investee, then adopt the equity method accounting, and the remaining equity is deemed to be adjusted by equity method when it is acquired. If the remaining equity after disposal cannot exercise joint control or exert significant influence on the investee, it shall be changed to accounting treatment in accordance with the relevant provisions of "Enterprise The relevant provisions of Accounting Standard No. 22 – Recognition and Measurement of Financial Instruments", and the difference between the fair value and the book value on the date of loss of control is included in the current profit and loss.
- (2) In the consolidated financial statements, for each transaction before the loss of control of the subsidiary, the disposal price and the corresponding disposal of long-term equity investment shall be between the share of the subsidiary 's net assets continuously calculated from the purchase date or the merger date, then adjust the capital reserve (equity premium), if the capital reserve is insufficient to offset, adjust the retained earnings; The sum of consideration received from disposal of equity investment and the fair value of the remaining equity investment, net of the difference between the sum of the company's previous share of the subsidiary's net assets recorded from the acquisition date, is recognized in investment income in the period in which control is lost, at the same time write down goodwill. Other comprehensive income related to the previous equity investment in the subsidiary, are transferred to investment income of the current period when the control is lost.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVI) Long-term equity investments (Continued)

5. *Disposal of long-term equity investments (Continued)*

If losing control of a subsidiary in disposal of equity interests through multiple transactions is recognized as a package transaction, these transactions shall be in accounting treated as loss control of a subsidiary in disposal of equity interests achieved. Then distinguish between individual and consolidated financial statements and related accounting treatment:

- (1) In individual financial statements, the difference between the price of each disposal and the book value of the long-term equity investment corresponding to the disposed equity before the loss of control is recognized as other comprehensive income, and is transferred to the loss of control when the control is lost rights and losses in the current period.
- (2) In the consolidated financial statements, before the loss of control, the difference between the price of each disposal and the share of the subsidiary's net assets corresponding to the disposal of investment is recognized as other comprehensive income, and it is transferred to the current profit and loss when the control is lost.

6. *Impairment test method and accrual method for impairment preparation*

On the balance sheet date, if there is a similar situation where the book value of the long-term equity investment is greater than the share of the book value of the owner's equity of the investee, the impairment test of long-term equity investment is carried out in accordance with —8 of the Accounting Standards for Enterprises. The recoverable amount of a long-term equity investment is determined on the basis of the higher between the net amount of the fair value of a single long-term equity investment minus disposal costs and the present value of the expected future cash flow of a long-term equity investment. When the recoverable amount of long-term equity investment is lower than the book value, the book value of the assets is written down to the recoverable amount, and the amount of the write-down is recognized as the impairment loss of the assets, and is included into the profits and losses of the current period, and the accrual is carried on the corresponding asset impairment preparation.

Once the impairment loss of long-term equity investment is confirmed, it will not be reversed.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVII) Investment property

Investment property is held to earn rentals or capital appreciation or both which include leased land use rights, land use rights held for sale after appreciation and leased buildings. In addition, for the vacant buildings that the company holds for operation and lease, if the board of directors makes a written resolution that clearly states that it will be used for operation and lease and the intention to hold will not change in the short term, it is also reported as investment property.

The investment property of the company is based on its cost as the book value. The cost of outsourcing investment property includes the purchase price, related taxes and other expenses directly attributable to the asset. The cost of self-built investment property is determined by the necessary expenditures incurred before the assets reach the expected usable state.

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.

When the use of investment property is changed to self-use, the company will convert the investment property into fixed assets or intangible assets from the date of change. When the purpose of self-use property is changed to earn rent or capital appreciation, the company will convert fixed assets or intangible assets into investment property from the date of change. When a conversion occurs, the book value before conversion is used as the book value after conversion.

On the balance sheet date, the company estimates the recoverable amount of investment property that shows signs of impairment. If the recoverable amount is lower than its book value, the corresponding impairment loss is recognized. Once the impairment loss of investment property is confirmed, it will not be reversed.

When the investment property is disposed of or withdrawn permanently from use and it is expected that no economic benefits can be obtained from its disposal, the confirmation of the investment property is terminated. The amount of disposal income from the sale, transfer, scrap or damage of investment property after deducting its book value and related taxes is included into the current profit and loss.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) 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. Initial measurement of fixed assets

The fixed assets of the company are initially measured at cost, including:

- (1) The cost of outsourcing fixed assets includes the purchase price, import duties and other related taxes and fees, as well as other expenses that can be directly attributed to the asset before they reach their intended usable state.
- (2) The cost of self-built fixed assets is determined by the necessary expenditures incurred before the assets reach the expected usable state.
- (3) For fixed assets invested by investors, the value agreed in the investment contract or agreement is regarded as the book value, but the value agreed in the contract or agreement is not accounted for at fair value.
- (4) If the payment for the purchase of fixed assets is delayed beyond the normal credit conditions, and is of a financing nature in essence, the cost of fixed assets is determined on the basis of the present value of the purchase price. The difference between the actual payment and the present value of the purchase price and the present value of the purchase price is recorded in the current profit or loss during the credit period, except where it should be capitalized.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Fixed assets (Continued)

3. Subsequent measurement and disposal of fixed assets

(1) Depreciation for fixed assets

Except for fixed assets that are fully depreciated and continue to be used and land that is separately accounted, 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.

The company determines the service life and estimated net residual value of fixed assets based on the nature and use of fixed assets. At the end of the year, the service life of the fixed assets, the estimated net residual value and the depreciation method are reviewed. If there is a difference from the original estimate, corresponding adjustments are made.

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

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

(2) Subsequent expenditure on fixed assets

Subsequent expenditures related to fixed assets that meet the conditions for confirmation of fixed assets are included into the cost of fixed assets; those that do not meet the conditions for confirmation of fixed assets are included into the current profit and loss when they occur.

(3) Disposal of fixed assets

When a fixed asset is disposed of or no economic benefit is expected to result from use or disposal, the recognition of the fixed asset is terminated. The amount of income from disposal of fixed assets sold, transferred, scrapped or damaged after deducting their book value and related taxes is included into the current profit and loss.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XVIII) Fixed assets (Continued)

4. *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 OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XIX) Construction in progress

1. *Categories of construction in progress*

The construction in progress that the company builds by itself is priced at actual cost. The actual cost consists of the necessary expenses incurred before the construction of the asset reaches the intended usable state, including the cost of engineering materials, labor costs, related taxes and fees payable capitalized borrowing costs and indirect costs that should be shared. Construction in progress is mainly accounted for by project classification.

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.

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 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 into 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 OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XX) Borrowing costs

1. *Criteria for recognition of capitalized borrowing costs*

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 into the costs of the related assets. Other borrowing costs shall be recognized as expense in the period in which they are incurred and included into 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.

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, constructed or 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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XX) Borrowing costs (Continued)

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 capitalization of the borrowing costs shall continue. The borrowing costs incurred during such period shall be recognized as profits and losses of the current period. When the acquisition and construction or production of the asset resumes, the capitalization of borrowing costs commences.

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

The interest expenses of special borrowing (deducting interest income obtained by depositing unused borrowing funds into the bank or investment income obtained by making temporary investment) and its auxiliary costs are capitalized before the capitalized assets purchased or produced reach their intended usable or marketable status.

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 OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXI) Right to use assets

The company initially measures the right to use assets at cost, the cost includes:

- 1) The initial measurement amount of the lease liability;
- 2) If the lease payment is paid on or before the start of the lease period, if there is a lease incentive, the relevant amount of the lease incentive already enjoyed shall be deducted;
- 3) The initial direct costs incurred by the company;
- 4) The company expects to incur costs (not including costs incurred for the production of inventory) in order to dismantle and remove the leased assets, restore the premises where the leased assets are located, or restore the leased assets to the state agreed in the lease terms.

After the start date of the lease period, the company uses the cost model for subsequent measurement of right to use assets.

If it is reasonable to determine the ownership of the leased asset when the lease term expires, the company shall make depreciation within the remaining useful life of the leased asset. If it cannot be reasonably determined that the ownership of the leased assets when the lease term expires, the company shall accrue depreciation within the short period between the lease term and the remaining useful life of the leased assets. For the right to use assets with impairment provision, in the future period, the depreciation is accrued according to the book value after deducting the impairment provision referring to the above principles.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXII) Intangible assets

1. Initial measurement of intangible assets

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 into 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 recognized.

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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXII) Intangible assets (Continued)

2. Subsequent measurement of intangible assets

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.

(1) Intangible assets with finite useful life

For intangible assets with finite useful life, amortization is carried out by the straight-line method within the period of bringing economic benefits to the enterprise.

At the end of each period, the service life and amortization method of intangible assets with limited useful life are reviewed. If there is any discrepancy with the original estimate, adjust accordingly.

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

(2) Intangible assets with uncertain service life

If an intangible asset can not be foreseen to bring economic benefits to an enterprise, it shall be regarded as an intangible asset with uncertain service life. For intangible assets with uncertain service life, they are not amortized during the holding period, and the life of intangible assets is reviewed at the end of each period. If it is still uncertain after the review at the end of the period, the impairment test shall be continued in each accounting period.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXII) Intangible assets (Continued)

3. 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. 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 into 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.

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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXII) Intangible assets (Continued)

4. *Specific criteria for the division of research phase and 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.

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.

5. *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.

If it does not meet the conditions listed above, is charged to profit or loss for the current period when incurred. Development expenditures that have been included into profit or loss in previous periods are not reconfirmed as assets in subsequent periods. The capitalized development expenditures are listed as development expenditures on the balance sheet, and are converted into intangible assets from the date when the project reaches its intended use.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIII) 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 into the current profit and loss when determined.

(XXIV) Contract liabilities

The obligation of the Company to transfer or receivable customers' considerations and to transfer goods is presented as contract liabilities.

(XXV) Employee Remuneration

Employee remuneration refers to the various forms of remuneration or compensation given by the company to obtain the services provided by the employees or to terminate the labor relationship. Employee remuneration includes short-term remuneration, retirement benefits, dismissal benefits and other long-term employee benefits.

1. Short-term remuneration

Short-term remuneration refers to the employee's remuneration that needs to be fully paid within 12 months after the end of the annual reporting period for employees to provide related services, except for retirement benefits and dismissal benefits. During the accounting period in which employees provide services, the company recognizes the short-term remuneration payable as a liability and accounts for the relevant asset costs and expenses based on the beneficiaries of the employees providing services.

2. Retirement benefits

(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 OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXV) Employee Remuneration (Continued)

2. Retirement benefits (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 into 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 into 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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXV) Employee Remuneration (Continued)

3. Dismissal benefits

Dismissal benefits refer to the company's termination of the labor relationship with the employee before the employee's labor contract expires, or the compensation given to the employee to encourage the employee to accept the reduction voluntarily. The Company will pay dismissal benefits when the Group can no longer withdraw the offer of termination plan or layoff proposal and 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.

(XXVI) Lease liability

The company's initial measurement of the lease liability is based on the present value of the lease payments that have not been paid on the beginning of the lease period. When calculating the present value of the lease payment, the company uses the interest rate implicit in the lease as the discount rate; if the interest rate implicit in the lease cannot be determined, the company uses the incremental borrowing rate as the discount rate. Lease payments include:

- 1) The fixed payment amount and the actual fixed payment amount after deducting the leasing incentive related amount;
- 2) Variable lease payments depending on index or ratio;
- 3) When the company reasonably determines that the option will be exercised, the lease payment includes the exercise price of the purchase option;
- 4) When the lease term reflects that the company will exercise the option to terminate the lease, the lease payment includes the amount to be paid for the exercise of the option to terminate the lease;
- 5) The expected payment due to the residual value of the guarantee provided by the company.

The company calculates the interest expense of the lease liability in each period of the lease term according to a fixed discount rate, and it is included into the current profit and loss or related asset costs.

Variable lease payments that are not included into the measurement of lease liabilities should be included into current profit or loss or related asset costs when they actually occur.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVII) Share-based payments

1. *Type of Share-based payments*

The Company's share-based payments included equity-settled share-based payments and cash-settled share-based payments.

2. *Confirmation methods for equity instruments*

For granted equity instruments such as options that exist in an active market, the fair value of an equity instruments determined according to the quotation in the active market. For granted equity instruments such as options that do not exist in an active market, the option pricing model is used to determine the fair value. The option pricing model selected considers the following factors: (1) The exercise price of the option; (2) The validity period of the option; (3) The current price of the underlying shares; (4) The expected volatility of the stock price; (5) The expected dividend of the shares; (6) The risk-free interest rate within the validity period of the option.

When determining the fair value of the equity instrument grant date, the impact of market conditions and non-feasible rights conditions in the vestable rights conditions stipulated in the share payment agreement is considered. If there are non-feasible rights conditions for share payment, as long as the employees or other parties meet the non-market conditions (such as the service period, etc.) of all the rights conditions, the cost corresponding to the service received is confirmed.

3. *The basis for determining the best estimate of an exercisable equity instrument*

During the waiting period on each balance sheet date, the best estimate is made based on the latest changes in the number of employees with available rights and other follow-up information, and the number of equity instruments with estimated available rights is revised. On the exercisable date, the final estimated number of exercisable equity instruments is consistent with the actual number of exercisable rights.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVII) Share-based payments (Continued)

4. *Relevant accounting treatment of implementation, modification and termination of share payment plan*

In the case of an equity-settled share-based payment, the fair value of the employee's equity instrument is measured. 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.

If the right to service during the waiting period is fulfilled or the required performance conditions are met, on each balance sheet date during the waiting period, the company makes the best estimate of the number of vesting equity instruments. 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.

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.

5. *Changes in the current period and related accounting treatment in case of modification of terms and conditions.*

If the granted equity instrument is canceled during the waiting period, the company will treat the cancellation of the granted equity instrument as an accelerated exercise, and the amount that should be confirmed in the remaining waiting period is immediately included into the current profit and loss, and the capital reserve is recognized. If the employee or other party can choose to meet the non-feasible exercise condition but is not satisfied within the waiting period, the company will treat it as the cancellation of the grant of equity instruments.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXVIII) Bond payable

1. *General corporate bonds*

Bond payable that is measured at fair value and whose changes are included into the current profit or loss takes their fair value as the initial confirmation amount, and the related transaction costs are directly included into the current profit and loss, and subsequent measurement is performed at fair value.

For other types of bond payable, the sum of their fair value and related transaction costs is used as the initial confirmation amount, and the amortized cost is used for subsequent measurement. The premium or discount is an adjustment to the interest expense during the duration of the bond payable and is amortized using the effective interest rate method during the duration of the bond.

2. *Convertible corporate bonds*

The convertible corporate bonds issued by the company are divided into the liability component and equity component at the initial recognition, the liability component is recognized as a bond payable, and the equity component is recognized as capital reserve. During the spin-off, the future cash flow of the liability component is discounted to determine the initial recognition amount of the liability component, and then the initial recognition amount of the equity component is determined by the amount of the total issue price after deducting the initial recognition amount of the liability component. Transaction costs incurred in the issuance of convertible corporate bonds are allocated between the liability component and the equity component according to their relative fair values.

(XXIX) Estimated liabilities

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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXIX) Estimated liabilities (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXX) 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 recognized 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 recognized 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 recognized in profit and loss for the year.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue

- (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.

- (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:
 - (1) 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.
 - (2) The customer can control the goods under construction in the process of corporate performance.
 - (3) 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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXI) Revenue (Continued)

(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:

- (1) The enterprise has the current right to collect the goods, that is, the customer has a current payment obligation for the goods.
- (2) 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.
- (3) The enterprise has transferred the physical goods to the customer, that is, the customer has possessed the goods in kind.
- (4) 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.
- (5) The customer has accepted the goods.
- (6) Other indications that the customer has obtained control of the commodity.

(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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXII) Contractual costs

1. *Contract performance costs*

The costs incurred by the company for the performance of the contract that do not fall within the scope of other enterprise accounting standards other than the income standard and meet the following conditions as a contract performance cost are recognized as an asset:

- (1) This cost is directly related to a current or expected contract, including direct labor, direct materials, manufacturing costs (or similar costs), the costs clearly borne by the customer, and other costs incurred only by the 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.

The asset is presented in inventory or other non-current assets based on whether the amortization period at the time of initial recognition exceeds a normal business cycle.

2. *Contract acquisition costs*

If the incremental cost incurred by the company in obtaining the contract is expected to be recovered, it is recognized as an asset as the cost of obtaining the contract. Incremental cost refers to the cost that the company will not incur without obtaining the contract, such as sales commission, etc. 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.

3. *Amortization of contract costs*

The assets related to contract costs are amortized at the time when the performance obligations are performed or in accordance with the progress of performance of the performance obligations, and are included into the current profit and loss, using the same basis for the recognition of the goods or services income related to the assets.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXII) Contractual costs (Continued)

4. *contract costs impairment*

For assets related to contract costs whose carrying amount is higher than the difference between the remaining price expected to be obtained by the transfer of goods or services related to the asset and estimate costs that will occur in order to transfer the relevant goods or services, the Company will make provision for impairment for the excess and recognize it as asset impairment loss.

After the impairment provision is accrued, if the factors of impairment in the previous period change, so that the above two differences are higher than the asset's book value, the asset impairment provision previously accrued shall be transferred back to the current profit and loss, but 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.

(XXXIII) Government grants

1. *Types*

Government grants are monetary assets and non-monetary assets that the company obtains from the government free of charge, but exclude capital invested by the government as the owner of the business. They are divided into government grants related to assets and government grants related to income.

For government grants that the government document does not specify the grant object, the company is divided into government grants related to assets or government grants related to the income according to the actual grant object. For details of the relevant judgment basis explanation, please refer to other current liabilities/other non-current liabilities/non-operating income items in Note VIII of this financial statement.

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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIII) Government grants (Continued)

2. Government grant confirmation

If there is evidence at the end of the period that the company can meet the relevant conditions stipulated in the financial support policy and is expected to receive financial support funds, the government grant shall be confirmed according to the amount receivable. In addition, government grants are confirmed when they are actually received.

If the government grant is a monetary asset, it shall be measured according to the amount received or receivable. If the government grant is a non-monetary asset, it shall be measured at the fair value. If the fair value cannot be obtained reliably, it shall be measured in nominal amount (CNY 1). Government grants measured in nominal amounts are directly included into the current profit and loss.

3. Accounting treatment method

Government subsidies related to assets should be offset against the book value of related assets or recognized as deferred income. If the government subsidies related to assets are recognized as deferred income, they are included into the current profit and loss in a reasonable and systematic manner within the useful life of the assets constructed or purchased.

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 into the current profit and loss or offset related costs. For the compensation of related costs and losses already incurred by the company, it shall be directly included into the current profit and loss or offset related costs.

The government grant related to the daily activities of the company is included into other income or offset related costs. If it is not related to the daily activities of the company, it is included into non-operating income.

When the confirmed government subsidy needs to be returned, if the book value of the relevant asset is deducted at the initial confirmation, the book value of the asset is adjusted; if there is a related deferred income balance, the book value of the related deferred income is offset, and the excess is included into the current profit and loss; If there is no relevant deferred income, it is directly included into the current profit and loss.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXIV) Deferred income tax assets and liabilities

1. *Basis for recognition of deferred income tax assets*

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.

2. *Basis for recognition of deferred income tax liabilities*

The company recognizes the taxable temporary difference between the current period and the previous period that has not been paid as deferred income tax liabilities. However, it does not include the goodwill and the temporary difference formed by the taxable income or deductible losses when transaction formed by non-business combinations occurs.

3. *When the following conditions are met at the same time, the deferred income tax assets and deferred income tax liabilities are listed as the net amount after offset*

- (1) The enterprise has the legal right to settle the current income tax assets and current income tax liabilities on a net basis;
- (2) 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.

In general, in individual financial statements, current income tax assets and liabilities and deferred income tax assets and deferred income tax liabilities are presented in net amount after offset. In the consolidated financial statements, among the enterprises included into the scope of consolidation, one party's current income tax assets or deferred income tax assets and the other party's current income tax liabilities or deferred income tax liabilities are generally not offset, unless the company involved has the legal right of a net amount to settle and intends to settle in net amount.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Leases

On the contract start date, the company evaluates whether the contract is a lease or includes a lease. If one of the parties in a contract transfers the right to control the use of one or more identified assets for a certain period of time in exchange for consideration, the contract is a lease or includes a lease.

1. *Spin-off of lease contract*

When the contract contains multiple separate leases at the same time, the company will split the contract and separate the individual leases for accounting treatment.

When the contract includes both lease parts and non-lease parts, the company will split the lease and non-lease parts, and the lease parts will be accounted for in accordance with the lease standard, and the non-lease parts shall be accounted for in accordance with other applicable corporate accounting standards.

2. *Merger of lease contracts*

When two or more contracts including leases concluded into by the company at the same time or at a similar time with the same party or their related parties meet one of the following conditions, they will be combined into one contract for accounting treatment:

- (1) The two or more contracts are concluded based on the overall business purpose and constitute a package of transactions, and the overall business purpose cannot be understood unless considered as a whole.
- (2) The amount consideration of one of the two or more contracts depends on the pricing or performance of other contracts.
- (3) The asset use rights transferred from the two or more contracts constitute a separate lease.

3. *The accounting treatment of the company as the lessee*

At the beginning of the lease period, the company recognizes the right to use assets and lease liabilities for the lease. For the accounting policies of right to use assets and lease liabilities, please refer to Right to use assets of IV (XX).

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Leases (Continued)

4. *The accounting treatment of the company as the lessor*

(1) *Classification of lease*

The company divides the lease into finance lease and operating lease on the lease start date. Finance lease refers to a lease that substantially transfers almost all the risks and rewards related to the ownership of leased assets, and its ownership may or may not be transferred eventually. Operating lease refers to other lease other than finance lease.

If a lease has one or more of the following situations, the company is generally classified as a finance lease:

- 1) At the end of the lease term, the ownership of the leased asset is transferred to the lessee.
- 2) The lessee has the option to purchase the leased asset. The purchase price concluded is sufficiently low compared to the fair value of the leased asset when the option is expected to be exercised, so that it can be reasonably determined at the date of commencement of the lease that the lessee will exercise the option.
- 3) Although the ownership of the assets is not transferred, the lease period accounts for most of the useful life of the leased assets.
- 4) At the start of the lease, the present value of the lease receipt is almost equivalent to the fair value of the leased asset.
- 5) The nature of the leased assets is special and only the lessee can use them without major renovation.

If a lease has one or more of the following signs, the company may also be classified as a finance lease:

- 1) If the lessee cancels the lease, the loss caused by the cancellation of the lease to the lessor shall be borne by the lessee.
- 2) The gains or losses resulting from the fluctuation in the fair value of the residual value of the assets belong to the lessee.
- 3) The lessee has the ability to continue to the lease to the next period for a rent far below the market level.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXV) Leases (Continued)

4. *The accounting treatment of the company as the lessor (Continued)*

(2) *Accounting treatment of finance lease*

On the beginning of the lease period, the company confirms the finance lease receivables for the finance lease and terminates the recognition of the finance lease assets.

At the initial measurement of finance lease receivables, the sum of the unguaranteed residual value and the current value of the lease receipts that have not been received at the beginning of the lease period discounted at the interest rate included into the lease is taken as the book value of the finance lease receivables. Lease receipts include:

- 1) The fixed payment amount and the actual fixed payment amount after deducting the leasing incentive related amount;
- 2) Variable lease payments depending on index or ratio;
- 3) When it is reasonably determined that the lessee will exercise the purchase option, the lease receipt includes the exercise price of the purchase option;
- 4) The lease term reflects the situation where the lessee will exercise the option to terminate the lease, and the lease receipt includes the amount that the lessee needs to pay to exercise the option to terminate the lease;
- 5) The residual value of the guarantee provided to the lessor by the lessee, a party related to the lessee and an independent third party who is financially capable of performing the guarantee obligation.

The company calculates and confirms the interest income in each period of the lease period according to the fixed lease interest rate. The variable lease payments obtained that are not included into the net measurement of the lease investment are included into the current profit and loss when they actually occur.

(3) *Accounting treatment of operating lease*

The company uses the straight-line method or other systematic and reasonable methods in each period of the lease period to confirm the lease receipts of operating leases as the rental income. The initial direct expenses related to operating leases are capitalized and apportioned on the same basis as the rental income recognized during the lease period and included into the current profit and loss in installments; the variable lease payments obtained that are not included into the lease receipts and related to operating leases are included into the current profit and loss when they actually occur.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXVI) Classified as assets held for sale

1. Confirmation Standard 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, approved by the regulatory authorities(if applicable) and obtained a certain purchase commitment. It is expected that the sale will be completed within one year.

The confirmed purchase commitment refers to the legally binding purchase agreement signed by the company and other parties. The agreement contains important terms such as transaction price, time and strict penalty for breach of contract, which makes the possibility of major adjustment or cancellation of the agreement extremely small.

2. Accounting method held for sale

If the book value of a non-current asset or disposal group held for sale is higher than the fair value minus the net value of the sale expense, the company shall reduce the book value to the fair value minus the net value of the sale expense, and the amount of the write-down shall be recognized as the impairment loss of the assets, and shall be included in the profits and losses of the current period, while provision shall be made for impairment of the assets held for sale.

For non-current assets or disposal groups that are classified as holding for sale on the date of acquisition, the comparison at the time of initial measurement assumes that they are not classified as holding for sale, the amount of initial measurement and the net amount of fair value minus the cost of sale, measured at the lower of both.

The above principle applies to all non-current assets, but does not include investment real estate that uses the fair value model for subsequent measurement, biological assets measured net of fair value minus selling expenses, assets formed by employee compensation, and deferred income tax assets, financial assets regulated by the relevant accounting standards of financial instruments and rights arising from insurance contracts regulated by the relevant accounting standards of insurance contracts.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IV. DESCRIPTION OF IMPORTANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(XXXVII) Fair value measurement

When the company measures related assets or liabilities at fair value, it is based on the following assumptions:

- A transaction in which market participants sell assets or transfer liabilities on the measurement date is an orderly transaction under current market conditions;
- Orderly transactions for the sale of assets or transfer of liabilities are conducted in the main market of the relevant assets or liabilities. If there is no major market, it is assumed that the transaction is conducted in the most favorable market for the relevant assets or liabilities.
- Adopt the assumptions used by market participants to maximize their economic benefits when pricing the asset or liability.

The company will use the transaction price as the initial recognized fair value according to the nature of the transaction and the characteristics of the relevant assets or liabilities.

If other relevant accounting standards require or allow the company to initially measure related assets or liabilities at fair value, and the transaction price is not equal to the fair value, the company will include the relevant gains or losses in the current profit and loss, unless other relevant accounting standards have other standards.

When measuring non-financial assets at fair value, consider the ability of market participants to use the asset for the best use to generate economic benefits, or to sell the asset to other market participants that can be used for the best use to generate economic benefits.

When adopting valuation techniques, the company considers valuation techniques that are applicable under the current circumstances and have sufficient available data and other information to support. The input value of the valuation technique preferentially uses the relevant observable input value, and the unobservable input value can only be used when the relevant observable input value cannot be obtained or is not practicable.

The input value used in fair value measurement is 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 inputs value is the input value that is directly or indirectly observable for the relevant assets or liabilities except for the first level input value.
- The third-level inputs are unobservable inputs to related assets or liabilities.

The level to which the fair value measurement result belongs is determined by the lowest level of the input value that is of great significance to the fair value measurement as a whole.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

V. DESCRIPTION OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES AND CORRECTION OF MAJOR PREVIOUS ERRORS

(I) Changes in accounting policies

There is no change in accounting policies in this period.

(II) Change in accounting estimates

There is no change in important 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.

VI. TAXATION

The principal taxable items of the Company and its subsidiaries are as follows:

(I) Turnover tax and additional taxes

<u>Tax Type</u>	<u>Tax basis</u>	<u>Tax rate</u>	<u>Note</u>
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%、9%、10%、13%、16%	
City maintenance and construction tax	Based on business tax paid, VAT and sale tax	7%	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VI. TAXATION (CONTINUED)

(II) Business income taxes

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 Leasing (Tianjin) Co., Ltd.	25%
Harbin Electric (H.E) Corporation	25%
Hadian Group Shanxi Environmental Protection Engineering Co., Ltd.	25%
Harbin Electric Group Biomass Power Generation (Wangkui) Co., Ltd.	25%
Harbin Electric Group Biomass Power Generation (Dehui) Co., Ltd.	25%

According to the relevant provisions of the "Enterprise Income Tax Law", high-tech enterprises that are supported by the state are subject to a corporate income tax rate of 15%

Note 1: Harbin Electric Company Limited (the Company)

On 7 August, 2020, the Company obtained the High and New Technology Enterprise certificate (Number: GR202023000278) 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 OF YEAR 2021

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

VI. TAXATION (CONTINUED)

(II) Business income taxes (Continued)

Note 2: Harbin Turbine Company Limited and its subsidiaries

On 7 August, 2020, Harbin Turbine Company Limited obtained the High and New Technology Enterprise certificate (Number: GR202023000237) 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 7 August, 2020, Harbin Turbine Ancillary Equipment Engineering Company Limited, the subsidiary of Harbin Turbine Company Limited obtained the High and New Technology Enterprise certificate (Number: GR202023000008) 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.

Note 3: Harbin Electrical Machinery Company Limited and its subsidiaries

On 7 August 2020, Harbin Electrical Machinery Company Limited obtained the High and New Technology Enterprise certificate (Number: GR202023000122) 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 27 September 2020, 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: GR202023000071) 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.

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

On 7 August 2020, Harbin Power Equipment National Engineering Research Centre Co., Ltd obtained the High and New Technology Enterprise certificate (Number: GR202023000085) 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 OF YEAR 2021

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

VI. TAXATION (CONTINUED)

(II) Business income taxes (Continued)

Note 5: HE Harbin Power Plant Valve Company Limited

On 7 August 2020, HE Harbin Power Plant Valve Company Limited obtained the High and New Technology Enterprise certificate (Number: GR202023000352) 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.

Note 6: Harbin Boiler Company Limited and its subsidiary

On 7 August 2020, the company obtained the High and New Technology Enterprise certificate (Number: GR202023000103) 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 27 November 2018, Harbin Boiler Preheater Company Limited 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.

Note 7: Harbin Electric Power Equipment Company Limited

On 7 August 2020, Harbin Electric Power Equipment Company Limited obtained the High and New Technology Enterprise certificate (Number: GR202023000203) 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.

Note 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 Dec 2019. The relevant certificate number is GR201913002647, which is effective for 3 years and entitle the company to pay Enterprise Income Tax at a rate of 15% within the period.

Note 9: Harbin Electric International Company Limited

On 27 December 2019, Harbin Electric International Company Limited was recognized 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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

(I) Subsidiary situation

In this period, 36 subsidiaries were included in the scope of consolidated financial statements, mainly including:

Name of subsidiaries	Type	Level	Shareholding ratio (%)	Proportion of voting rights (%)	Company nature	Paid-in capital
Harbin Turbine Company Limited	1	2	100	100	limited liability company	1,300,332,892.68
Harbin Power Technology & Trade Inc.	1	2	55.56	55.56	limited liability company	27,000,000.00
Harbin Electric International Company Limited	1	2	100	100	limited liability company	750,000,000.00
Harbin Electric Machinery Co., Ltd.	1	2	100	100	limited liability company	709,236,879.74
Hadian Power Generation Equipment State Engineering Research Centre Co., Ltd.	1	2	75	75	limited liability company	160,000,000.00
HE Harbin Power Plant Valve Company Limited	1	2	45	45	limited liability company	177,777,600.00
Harbin Boiler Company Limited	1	2	100	100	limited liability company	746,852,893.28
Harbin Electric Power Equipment Co., Ltd.	1	2	100	100	limited liability company	1,070,000,000.00
Harbin Electric Corporation (QHD) Heavy Equipment Company Limited	1	2	34	34	limited liability company	2,050,000,061.08
Harbin Electric Corporation Finance Company Limited	2	2	55	55	limited liability company	1,500,000,000.00
Harbin Electric (H.E) Corporation	1	2	100	100	limited liability company	20,000,000.00
Hadian Group Shanxi Environmental Protection Engineering Co., Ltd.	1	2	51	51	limited liability company	98,000,000.00
Chengdu Sanliya Technology Company	1	2	40.7	40.7	limited liability company	53,126,540.00
Harbin Electric Leasing (Tianjin) Co., Ltd.	1	2	80	80	limited liability company	500,000,000.00
Harbin Electric Group Biomass Power Generation (Wangkui) Co., Ltd.	1	2	100	100	limited liability company	136,100,000.00
Harbin Electric Group Biomass Power Generation (Dehui) Co., Ltd.	1	2	100	100	limited liability company	138,910,000.00

Type of enterprise: 1. Domestic non-financial subsidiary; 2. Domestic financial subsidiary; 3. Overseas subsidiary; 4. Public institution; 5. Infrastructure unit.

Note: Enterprises with a shareholding ratio of less than 50% are included in the scope of consolidation. Please refer to Note IX. (1) Equity in subsidiaries for the reasons.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Subsidiary situation (Continued)

Compared with the previous period, the number of entities included in the consolidated financial statements in the current period increased by 2 and decreased by 0. Among them:

- Subsidiaries, special-purpose entities, and operating entities that form control through entrusted operations or leases newly included in the scope of consolidation in the current period include:

Name	Reason for change
Harbin Electric Machinery Research Institute Co., Ltd.	Investment establishment
Jilin Province Zesheng Environmental Protection Engineering Co., Ltd.	Business combination not under common control

(II) Business combinations not under the same control in this period

Unit: Ten thousand yuan

Acquiree	Combining date	Net book value	Fair value of identifiable net assets		Transaction consideration	Goodwill		The income of the acquiree from the acquisition date to the end of this period	Net profit of the acquiree from the acquisition date to the end of the period
			Amount	Method		Amount	Method		
Jilin Province Zesheng Environmental Protection Engineering Co., Ltd.	May, 2021	14,341.13	14,136.69	Evaluation	12,000.00	2,498.43	The difference between the merger cost and the fair value share of the identifiable net assets of the acquiree obtained in the merger		-493.52

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS

(If there is no special indication, the following amounts are in RMB, and the opening balances are all on January 1, 2021)

(I) Cash and bank

Items	Closing balance	Opening balance
Cash	2,008,116.65	3,314,137.20
Bank deposit	12,657,216,256.36	11,333,881,488.11
Other currency	942,658,576.84	911,514,646.08
Total	13,601,882,949.85	12,248,710,271.39
Among: the total amount of money deposited abroad	70,242,581.71	338,208,986.92

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:

Items	Closing balance	Opening balance
The bank acceptance deposit	304,737,181.59	209,432,739.02
Guarantee deposit		590,520.68
The central bank's legal deposit reserve	637,921,395.25	701,491,386.38
The court froze the deposit	38,254,200.00	39,149,400.00
Total	980,912,776.84	950,664,046.08

The monetary capital deposited abroad was CNY 70,242,581.71 at the end of year 2021, are mainly used for the balance of overseas project site funds allocated by the Company's subsidiaries, Harbin Electric International Engineering Co., Ltd. and Harbin Electric Machinery Factory Co., Ltd.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Due from banks and other financial institutions

Items	Closing balance	Opening balance
Call loan to other banks	750,000,000.00	470,000,000.00
Call loan to non-bank financial institutions	560,000,000.00	300,000,000.00
Less: loan loss reserves	150,000,000.00	94,000,000.00
The book value of loans to other banks	1,160,000,000.00	676,000,000.00

(III) Transactional financial assets

Items	Fair value at the end of the period	Fair value at the beginning of the period
Transactional financial assets	1,586,755.20	201,804,166.47
Of which: Debt instrument investment Equity instrument investment Others	1,586,755.20	201,804,166.47
Fair Value through Profit and Loss		
Of which: debt instrument investment Hybrid instrument investment Others		
Total	1,586,755.20	201,804,166.47

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(IV) 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	1,650,938,235.85		1,650,938,235.85	3,017,537,527.45	1,000,000.00	3,016,537,527.45
Business acceptance	1,022,621,513.11		1,022,621,513.11	433,199,291.08		433,199,291.08
Total	2,673,559,748.96		2,673,559,748.96	3,450,736,818.53	1,000,000.00	3,449,736,818.53

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	2,070,978,700.93	
Business acceptance	132,837,784.33	
Total	2,203,816,485.26	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(V) Accounts receivable

The basis for the company's accounts receivable aging analysis and confirmation is: the accounts receivable aging is determined according to the confirmation time of the project revenue confirmed by the contract order. Receivables in a certain contract are first used to pay off early claims, and after the early claims are paid off, they are used to pay off subsequent claims. The principle of retraction occurs first.

1. Accounts receivable shown by age

Age	Closing balance	Opening balance
Within one year	4,640,228,704.28	3,911,991,961.36
One to two years	1,610,962,970.55	1,227,320,012.10
Two to three years	596,602,000.90	632,624,065.73
Over three years	399,849,329.59	378,868,187.03
Total	7,247,643,005.32	6,150,804,226.22

Remarks: The credit terms granted to customers vary, generally depending on the financial strength of individual customers. To effectively manage the credit risk associated with accounts receivable, the Company regularly evaluates the creditworthiness of customers.

2. Accounts receivable shown by classification

Type	Closing balance					Opening balance				
	Carrying Amount		Bad debt provision			Carrying Amount		Bad debt provision		
	Amount	Percentage (%)	Amount	Expected credit loss rate (%)	Book value	Amount	Percentage (%)	Amount	Expected credit loss rate (%)	Book value
Accounts receivable with single item provision for bad debts	1,583,436,677.18	13.43	974,343,230.62	61.53	609,093,446.56	1,062,411,205.14	10.19	710,416,506.08	66.87	351,994,699.06
Accounts receivable with provision for bad debts by combination	10,207,775,887.87	86.57	3,569,226,329.11	34.97	6,638,549,558.76	9,367,324,992.77	89.81	3,568,515,465.61	38.10	5,798,809,527.16
Total	11,791,212,565.05		4,543,569,559.73	38.53	7,247,643,005.32	10,429,736,197.91		4,278,931,971.69	41.03	6,150,804,226.22

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(V) Accounts receivable (Continued)

3. Accounts receivable with single item provision for bad debts

Debtor	Accounts receivable	Bad debt provision	Expected credit	Reason for accrual
			loss rate (%)	
Ministry of National Water Conservancy and Irrigation of the Republic of Sudan (Sudan Danoway Project)	252,094,583.72	252,094,583.72	100.00	Note 1
Harbin Guanghan Power Technology Development Co., Ltd.	248,559,994.46	26,655,531.25	10.72	The key projects are judged according to the actual situation
No. 703 Research Institute of China Shipbuilding Industry Corporation	237,816,640.40	32,282,949.18	13.57	The key projects are judged according to the actual situation
Indian coast energy co.	121,856,334.46	121,856,334.46	100.00	Not expected to be recovered
Shanghai Nuclear Engineering Research and Design Institute	66,024,000.00			Judging by recyclability
Xinjiang Zhundong TBEA Energy Co., Ltd.	59,998,000.00	46,293,800.00	77.16	Judging by recyclability
Sudan National Electric Power Company	49,729,376.38	49,729,376.38	100.00	Judging by recyclability
Shenhua Guoneng Group Co., Ltd. Beijing Materials Branch	39,747,920.00	39,747,920.00	100.00	Difficulty in collecting money
Shenhua Guoneng Baoqing Coal Electrochemical Co., Ltd.	39,391,920.00	39,382,980.00	99.98	Difficulty in collecting money
Sudan Electricity and Dam Department	35,289,499.50	35,289,499.50	100.00	Judging by recyclability
Datong Coal Mine Group Shuozhou Coal and Electricity Co., Ltd.	33,560,000.00	33,560,000.00	100.00	Judging by recyclability
China Power Construction Group Shandong Electric Power Construction Co., Ltd.	32,500,000.00	32,500,000.00	100.00	Difficulty in collecting money
Datang Environmental Industry Group Co., Ltd. Leizhou Project Branch	27,384,367.22	13,692,183.61	50.00	Difficulty in collecting money

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(V) Accounts receivable (Continued)

3. Accounts receivable with single item provision for bad debts (Continued)

Debtor	Accounts receivable	Bad debt provision	Expected credit loss rate (%)	Reason for accrual
Inner Mongolia Jinlian Aluminum Co., Ltd.	22,298,670.00	22,298,670.00	100.00	Difficulty in collecting money
Inner Mongolia Hongyu	17,510,000.00	17,510,000.00	100.00	Judging by recyclability
Shandong Electric Power Construction Third Engineering Co., Ltd.	16,091,909.00	16,091,909.00	100.00	Judging by recyclability
Xinjiang Changji Tebian Energy Co., Ltd.	15,216,880.00	12,173,504.00	80.00	Difficulty in collecting money
Xinjiang Qiya Aluminum Electric Co., Ltd.	14,972,000.00	14,972,000.00	100.00	Difficulty in collecting money
Sudan Dam Department Thermal Power Company	14,516,436.67	12,492,746.64	86.06	not recovered for a long time
Energy China Group Equipment Co., Ltd.	13,877,200.00	13,877,200.00	100.00	Difficulty in collecting money
Great Leader Thermolectric (Private) Limited	13,017,071.85			Judging by recyclability
Datong Coal Mine Group Yanggao Thermal Power Co., Ltd.	12,840,000.00	10,272,000.00	80.00	Judging by recyclability
Inner Mongolia Chuangyuan Metal Co., Ltd.	12,136,000.00	9,708,800.00	80.00	Difficulty in collecting money
Beijing Guodian Lantian Energy Saving Technology Development Co., Ltd.	10,737,620.00	10,737,620.00	100.00	Judging by recyclability
Datang Huayin Electric Power Co., Ltd. Jinzhushan Thermal Power Generation Branch	8,367,000.00	8,367,000.00	100.00	Judging by recyclability
Sun Yumin	8,125,147.25	8,125,147.25	100.00	Sue
Yunnan Kenfeng Agricultural Equipment Sales	7,975,437.26	7,432,375.66	93.19	Judging by recyclability
EREN Enerji Elektrik Uretim A.S. Binjiasheng Project	6,439,457.00			Judging by recyclability
	6,265,180.82	6,063,248.22	96.78	Judging by recyclability

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(V) Accounts receivable (Continued)

3. Accounts receivable with single item provision for bad debts (Continued)

Debtor	Accounts receivable	Bad debt provision	Expected credit loss rate (%)	Reason for accrual
China Water Resources and Electric Power Materials Group Co., Ltd.	5,977,000.00	4,781,600.00	80.00	Difficulty in collecting money
Ordos Green Energy Photoelectric Co., Ltd.	5,860,000.00	5,860,000.00	100.00	Difficulty in collecting money
RIO PARANÁ ENERGIA S/A – UHE ILHA	4,601,173.93			Judging by recyclability
Qu Baogang	3,816,755.00	3,816,755.00	100.00	Judging by recyclability
Nine Three Regal	3,571,371.00	3,571,371.00	100.00	Sue
Yu Zhigang	3,080,561.38	3,080,561.38	100.00	Judging by recyclability
Fujin Fudi Trading Company	2,692,004.50	2,277,047.80	84.59	Judging by recyclability
Guo Shuyi	1,483,279.00	1,483,279.00	100.00	Litigation
Heilongjiang Longmei Hegang Mining Co., Ltd.	1,423,551.60	920,619.70	64.67	may not be recovered
Jiangsu Fenghai New Energy Engineering Technology Co., Ltd.	1,300,000.00	900,000.00	69.23	Judging by recyclability
Harbin Honghao Power Station Equipment Technology Co., Ltd.	1,232,800.00	1,232,800.00	100.00	Judging by recyclability
Others	104,059,534.78	53,211,817.87	51.14	Judging by recyclability
Total	1,583,436,677.18	974,343,230.62	61.53	

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, 2005 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, 2021, the total balance of accounts receivable of the three projects was USD47,339,736.83, which was equivalent to the standard currency of CNY 301,823,960.10. The Company has made a provision for bad debts of USD47,339,736.83 for overdue part of accounts receivable, which was equivalent to the standard currency of CNY 301,823,960.10.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(V) Accounts receivable (Continued)

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

(1) Accounts receivables accruing bad debt provision by applying aging analysis:

Age	Closing balance			Opening balance		
	Carrying Amount	Percentage	Bad debt Provision	Carrying Amount	Percentage	Bad debt Provision
	Amount	(%)		Amount	(%)	
Within one year (1 year included)	4,525,823,090.04	44.34	222,714,727.95	3,928,398,136.35	41.94	191,216,124.73
One to two years (2 year included)	1,937,022,420.03	18.98	472,022,587.93	1,503,282,704.44	16.05	366,133,834.46
Two to three years (3 year included)	1,077,983,425.50	10.56	520,074,107.77	1,160,176,578.60	12.39	542,375,464.70
Three to four years (4 year included)	709,960,150.39	6.96	549,900,092.63	784,162,326.90	8.37	579,827,597.74
Four to five years (5 year included)	521,201,801.88	5.11	397,540,193.60	281,984,152.00	3.01	218,174,772.63
Over five years	1,435,785,000.03	14.07	1,406,974,619.23	1,709,321,094.48	18.25	1,670,787,671.35
Total	10,207,775,887.87		3,569,226,329.11	9,367,324,992.77		3,568,515,465.61

5. The situation of provision, return or withdraw the bad debt provision

The bad debt provision of this year was CNY 1,606,076,507.77, Return or recover bad debts for CNY 1,072,283,656.81.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(V) Accounts receivable (Continued)

6. 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
LANCO INTERNATIONAL PTE. LTD.	payment	75,455,555.63	company bankrupt	Group Board of Directors	no
Liaoning Nanyao Coal and Electricity Co., Ltd.	payment	70,000.00	Money cannot be recovered	Internal approval	no
Orchid International Private Limited	Project money	29,803,977.13	Owner goes bankrupt	General manager office meeting for approval	no
Guodian Yangzonghai Power Generation Co., Ltd.	Arrears	305,430.00	Difficulty in recycling long accounts	By internal resolution of the company	no
Xinhui Shuangshui Power Generation (B Plant) Co., Ltd.	Arrears	363,800.00	Difficulty in recycling long accounts	By internal resolution of the company	no
Huadian Datong No.1 Thermal Power Plant Co., Ltd.	Arrears	2,670,600.00	Liquidation	By internal resolution of the company	no
Jiamusi Thermal Power Plant	Arrears	139,760.33	Liquidation	By internal resolution of the company	no
China Machinery Engineering Corporation	Arrears	373,404.00	Difficulty in recycling long accounts	By internal resolution of the company	no
Zhejiang Steam Turbine Complete Technology Development Co., Ltd.	Arrears	3,223,500.00	Litigation Settlement Agreement	By internal resolution of the company	no
Xilin Iron and Steel Group Acheng Iron and Steel Co., Ltd.	Arrears	3,524,000.00	Liquidation	By internal resolution of the company	no
Xuzhou Niutoushan Casting Industry Co., Ltd.	Arrears	880,292.65	Liquidation	By internal resolution of the company	no

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(V) Accounts receivable (Continued)

6. The important write-off of accounts receivable in this period (Continued)

Debtor	Nature of accounts receivable	Write-off amount	Reasons for writing off	Fulfilment of verification procedures	Is it due to a related transaction
Beijing Xingyi Century Technology Co., Ltd.	Arrears	12,872,000.00	Liquidation	By internal resolution of the company	no
Xinjiang Yihua Chemical Co., Ltd.	Arrears	505,000.00	Liquidation	By internal resolution of the company	no
Lanco International Pet Ltd	Arrears	120,140,407.04	Liquidation	By internal resolution of the company	no
Shanxi Zhongyu Energy Co., Ltd.	Arrears	9,000.00	Difficulty in recycling long accounts	By internal resolution of the company	no
Shandong Yuanhe Power Station Engineering Technology Company	Arrears	266,640.00	cannot be recovered	By internal resolution of the company	no
Dongguan Dongcheng Dongxing Thermal Power Co., Ltd.	Arrears	1,000,000.00	cannot be recovered	By internal resolution of the company	no
Beijing Xingyi Century Technology Co., Ltd.	Arrears	1,400,000.00	cannot be recovered	By internal resolution of the company	no
Shanxi Jinneng Group Datong Thermal Power Co., Ltd.	Arrears	296,000.00	cannot be recovered	By internal resolution of the company	no
Ningbo Zhongchao Machinery Co., Ltd.	Warranty money	176,000.00	The account is too old to be recovered	Apply for write-off report, General manager	no
Tangshan Guofeng Iron and Steel Co., Ltd.	Warranty money	74,000.00	The account is too old to be recovered	Application for write-off report, Asset reduction	no
Equipment Department of Benxi Iron and Steel Company	Warranty money	1,768,520.00	The account is too old to be recovered	Application for write-off report, Board of directors	no
Shenyang Heavy Machinery Factory	Warranty money	417,102.12	The account is too old to be recovered	Application for write-off report, Board of directors	no

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(V) Accounts receivable (Continued)

6. The important write-off of accounts receivable in this period (Continued)

Debtor	Nature of accounts receivable	Write-off amount	Reasons for writing off	Fulfilment of verification procedures	Is it due to a related transaction
Nantong Special Steel Plant	Warranty money	1,110,000.00	The account is too old to be recovered	Application for write-off report, Board of directors	no
Anshan Iron and Steel Equipment Department	Warranty money	1,342,977.69	The account is too old to be recovered	Application for write-off report, Board of directors	no
Zhangjiagang Hongchang Steel Plate Co., Ltd.	Warranty money	207,360.00	The account is too old to be recovered	Apply for write-off report, General manager	no
Datang Qitaihe Power Generation Co., Ltd.	Warranty money	200,000.00	The account is too old to be recovered	Apply for write-off report, product cancellation	no
Chengdu Electric Machinery Factory	Warranty money	266,150.00	The account is too old to be recovered	Application for write-off report, board of directors	no
TBEA Co., Ltd.	Warranty money	430,000.00	The account is too old to be recovered	Application for write-off report, board of directors	no
Harbin Tiantong Transformer Co., Ltd.	Warranty money	28,148.51	The account is too old to be recovered	Apply for write-off report, General manager	no
Hefei ABB Transformer Co., Ltd.	Warranty money	480,000.00	The account is too old to be recovered	Apply for write-off report, General manager	no
Hebei Electric Power Construction Second Engineering Company	Completed payment	156,145.40	The debtor unit went bankrupt, the original contract documents were lost, and the claims could not be declared.	The board of directors of the company and the party committee review	no

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(V) Accounts receivable (Continued)

6. The important write-off of accounts receivable in this period (Continued)

Debtor	Nature of accounts receivable	Write-off amount	Reasons for writing off	Fulfilment of verification procedures	Is it due to a related transaction
Huadian Kaidi Green Energy Development Co., Ltd.	Completion payment and warranty	56,000.00	The debtor was unable to repay and could not sue due to the loss of the original contract.	The board of directors of the company and the party committee review	no
Tenglong Aromatics (Zhangzhou) Co., LTD	quality guarantee deposit	161,400.00	deduction due to quality problem	Apply for write-off report, General manager	no
Total		264,139,980.88			

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

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

(V) Accounts receivable (Continued)

7. The top five debtors of accounts receivable at the end of the year

Debtor	Carrying Amount	Proportion of total account receivable (%)	Bad debt provision
Jiangxi Ganneng Co., Ltd. Fengcheng Phase III Power Plant	452,121,410.88	3.83	22,606,070.54
Linyi Huasheng Jiangquan Energy Co., Ltd.	340,410,000.00	2.89	84,494,500.00
Inner Mongolia Energy Power Generation Investment Group Co., Ltd. Jinshan Second Thermal Power Branch	255,792,000.00	2.17	12,789,600.00
Ministry of National Water Resources and Irrigation of the Republic of Sudan	252,094,583.72	2.14	252,094,583.72
Harbin Guanghan Power Technology Development Co., Ltd.	248,559,994.46	2.11	26,655,531.25
Total	1,548,977,989.06	13.14	398,640,285.51

(VI) Prepayments

Age	Closing balance			Opening balance		
	Carrying Amount Amount	Percentage Percentage (%)	Bad debt provision	Carrying Amount Amount	Percentage Percentage (%)	Bad debt provision
Less than a year (1 year included)	3,000,740,554.91	74.00		1,722,957,041.16	58.36	
One to two years (2 year included)	533,091,915.60	13.15		747,152,303.60	25.31	
Two to three years (3 year included)	95,919,981.81	2.36		319,577,286.93	10.83	
Over three years	425,377,017.99	10.49	1,732,617.80	162,359,117.74	5.50	8,137,394.68
Total	4,055,129,470.31	100.00	1,732,617.80	2,952,045,749.43	100.00	8,137,394.68

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(VI) Prepayments (Continued)

1. Significant advance payment over 1 year

Creditor Name	Debtor Name	Closing balance	Age	Unliquidated Reason
Harbin Steam Turbine Plant Co., Ltd.	Mitsubishi Corporation of Japan	174,320,540.00	over 3 years	Not yet settled
Harbin Electric Power Equipment Co., Ltd.	Andritz AG	109,628,757.04	1-2 years	The contract has not been fulfilled
Harbin Electric Machinery Factory Co., Ltd.	Beijing Guodian Water Conservancy and Electric Power Engineering Co., Ltd.	57,707,257.50	1-2 years	The contract has not been fulfilled
Harbin Electric International Engineering Co., Ltd.	Northern Heavy Industry Group Co., Ltd.	54,701,144.91	over 3 years	The contract has not been fulfilled
HE Group (Qinhuangdao) Heavy Equipment Co., Ltd.	VALINOX NUCLEAIRE	39,398,157.16	over 5 years	The contract has not been fulfilled
Harbin Electric Power Equipment Co., Ltd.	HOLTEC INTERNATIONAL	28,446,777.96	4-5 years	The contract has not been fulfilled
Harbin Electric Machinery Factory Co., Ltd.	ANDRITZ (China) Co., Ltd.	26,833,263.26	1-3 years	The contract has not been fulfilled
Harbin Steam Turbine Plant Co., Ltd.	Toshiba Corporation of Japan	26,184,566.61	3-4 years	Not yet settled
Harbin Electric Power Equipment Co., Ltd.	Mitsubishi Hitachi Power Systems, Lt	24,181,393.65	1-2 years, 2-3 years, 3-4 years, 4-5 years	The contract has not been fulfilled
HE Group (Qinhuangdao) Heavy Equipment Co., Ltd.	Doosan Heavy Industries	23,780,250.00	3-4 years	The contract has not been fulfilled
HE Group (Qinhuangdao) Heavy Equipment Co., Ltd.	Sweden S.M.T	20,723,113.73	2-3 years	The contract has not been fulfilled
Harbin Electric International Engineering Co., Ltd.	Jiangsu Electric Power Equipment Co., Ltd.	17,038,465.40	Within 1 year, 1-2 years	The contract has not been fulfilled
Harbin Electric Power Equipment Co., Ltd.	China First Heavy Machinery Co., Ltd.	16,354,672.55	1-2 years	The contract has not been fulfilled
Harbin Boiler Factory Co., Ltd.	Heilongjiang Construction and Installation Group Co., Ltd.	13,485,000.00	1-2 years	Not yet settled

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(VI) Prepayments (Continued)

1. Significant advance payment over 1 year (Continued)

Creditor Name	Debtor Name	Closing balance	Age	Unliquidated Reason
Harbin Electric Machinery Factory Co., Ltd.	Hangzhou Huachen Power Control Engineering Co., Ltd.	13,167,455.75	1-2 years	The contract has not been fulfilled
Harbin Steam Turbine Plant Auxiliary Engineering Co., Ltd.	Mitsubishi Heavy Industries, Ltd.	12,256,742.40	over 3 years	Not yet settled
Harbin Steam Turbine Plant Co., Ltd.	Harbin Huaqiang Power Station Equipment Repair Co., Ltd.	12,004,785.44	1-2 years	Not yet settled
Harbin Electric Machinery Factory Co., Ltd.	Shenyang Baosteel Northeast Trading Co., Ltd.	10,148,485.70	1-2 years	The contract has not been fulfilled
Harbin Boiler Factory Co., Ltd.	Zhengzhou Kangningte Environmental Engineering Technology Co., Ltd.	10,000,000.00	1-2 years	Not yet settled
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 fulfilled
Harbin Electric Machinery Factory Co., Ltd.	Hangzhou Huachen Power Control Engineering Co., Ltd.	9,000,000.00	1-2 years	The contract has not been fulfilled
Harbin Electric International Engineering Co., Ltd.	China Construction Steel Structure Co., Ltd.	8,534,193.17	1-2 years, 2-3 years	The contract has not been fulfilled
HE Group (Qinhuangdao) Heavy Equipment Co., Ltd.	Vallourec Nuclear Power Pipe (Guangzhou) Co., Ltd.	7,800,083.71	2-3 years; 3-4 years	The contract has not been fulfilled
Harbin Electric Power Equipment Co., Ltd.	Beijing Xinsuo Tiandi Technology Co., Ltd.	6,399,146.00	1-2 years	The contract has not been fulfilled
Harbin Boiler Factory Co., Ltd.	Huayou Pipe Industry Co., Ltd.	6,000,000.00	1-2 years	Not yet settled
HE Group (Qinhuangdao) Heavy Equipment Co., Ltd.	NEOTISS France	5,973,639.98	1-2 years	The contract has not been fulfilled
Harbin Boiler Factory Co., Ltd.	DREHMO GmbH	5,263,841.38	1-2 years	Not yet settled

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(VI) Prepayments (Continued)

1. Significant advance payment over 1 year (Continued)

Creditor Name	Debtor Name	Closing balance	Age	Unliquidated Reason
Harbin Boiler Factory Co., Ltd.	Huadian Heavy Industry Machinery Co., Ltd.	4,266,300.00	1-2 years	Not yet settled
Harbin Electric Power Equipment Co., Ltd.	Yantai Taihaimanur Nuclear Power Equipment Co., Ltd.	4,060,000.00	3-4 years, more than 5 years	The contract has not been fulfilled
Harbin Electric Machinery Factory (Zhenjiang) Co., Ltd.	Hubei Hongcheng General Machinery Co., Ltd.	3,100,000.00	1 to 2 years	The contract has not been fulfilled
HE Group (Qinhuangdao) Heavy Equipment Co., Ltd.	Committed to Huafu Technology Co., Ltd.	2,562,575.18	over 5 years	The contract has not been fulfilled
Harbin Electric Machinery Factory (Zhenjiang) Co., Ltd.	Yuanda Industrial Control Technology (Hangzhou) Co., Ltd.	2,557,468.17	1 to 2 years	The contract has not been fulfilled
Harbin Electric Machinery Factory (Zhenjiang) Co., Ltd.	Zhangjiagang Anlos Materials Co., Ltd.	2,022,716.00	1 to 2 years	The contract has not been fulfilled
Harbin Electric Power Technology and Trade Co., Ltd.	John Deere	1,107,000.00	1-2 years	Not yet settled
Total		768,068,158.20		

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(VI) Prepayments (Continued)

2. The top five debtors of Prepayments at the end of the year

Debtor	Carrying Amount	Proportion (%)	bad debts Allowance
Japan Mitsubishi, Ltd.	174,320,540.00	4.30	
Andritz AG	147,414,956.05	3.63	
Harbin Huaqiang Power Station Equipment Repair Co., Ltd.	105,567,491.92	2.60	
Nippon Steel Corporation	101,945,061.46	2.51	
Yingkou Longren Heavy Industry Co., Ltd.	88,360,980.70	2.18	
Total	617,609,030.13	15.22	

(VII) Other receivables

Items	Closing balance	Opening balance
Interest receivable	9,905,479.45	14,562,658.39
Dividend receivable		
Other receivables	1,310,789,006.28	1,107,126,914.72
Total	1,320,694,485.73	1,121,689,573.11

Note: Other receivables in the above table refer to other receivables after deducting interest receivable and dividends receivable.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(VII) Other receivables (Continued)

1. Classification of Interest receivable

Items	Closing balance	Opening balance
Term deposits		5,754,822.78
Bond investment	3,300,000.00	3,300,000.00
Others	6,605,479.45	5,507,835.61
Total	9,905,479.45	14,562,658.39

2. Details of other receivables

Type	Closing balance				Opening balance			
	Carrying Amount		Bad debt provision		Carrying Amount		Bad debt provision	
	Amount	Proportion (%)	Amount	Expected credit loss rate (%)	Amount	Proportion (%)	Amount	Expected credit loss rate (%)
Other accounts receivable with single item provision for bad debts	1,514,360,729.85	83.72	284,567,418.91	18.79	1,396,544,287.13	79.74	392,866,832.26	28.14
Other accounts receivable with provision for bad debts based on a combination of credit risk characteristics	294,443,918.45	16.28	213,448,223.11	72.49	355,016,674.41	20.26	251,567,214.56	70.86
Total	1,808,804,648.30		498,015,642.02	27.53	1,751,560,961.54		644,434,046.82	36.79

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(VII) Other receivables (Continued)

2. Details of other receivables (Continued)

(1) Other receivables with individually accruing bad debt provision:

Debtor	Other receivables	Closing balance		Reason
		Bad debt provision	Proportion (%)	
China Construction Third Bureau Second Construction Engineering Co., Ltd.	357,656,070.91			Determination based on recoverability
Dubai Hassyan Project Investment Company	158,700,005.07			Determination based on recoverability
output tax to be transferred	136,834,629.08			Determination based on recoverability
Ecuador's state-owned power holding company	128,216,188.05	3,488,205.98	2.72	Determination based on recoverability
Guizhou Huadian Tangzhai Power Generation Co., Ltd. entrusted loan	99,000,000.00	99,000,000.00	100.00	Determination based on recoverability
jamsholo power co., Ltd.	85,631,801.89			Determination based on recoverability
Entrusted loan of Yunnan Huadian Zhenxiang Power Generation Co., Ltd.	76,000,000.00	76,000,000.00	100.00	Determination based on recoverability
reserve	66,773,254.74	1,222,115.72	1.91	Determination based on recoverability
Receivable export tax rebate	53,045,267.99			Determination based on recoverability
National Power Parks Management Company (pvt.) Limited, the owner of the Balokam project	19,970,977.61			Determination based on recoverability
capital increase	19,555,360.00			Determination based on recoverability
Auxiliary machinery company share conversion	16,903,200.00	16,903,200.00	100.00	Higher risk of recycling
Other taxes receivable	15,851,148.62			Determination based on recoverability

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(VII) Other receivables (Continued)

2. Details of other receivables (Continued)

(1) Other receivables with individually accruing bad debt provision: (Continued)

Debtor	Other receivables	Closing balance		
		Bad debt provision	Proportion (%)	Reason
China Water Resources and Hydropower Eighth Engineering Bureau Co., Ltd.	15,323,067.69			Determination based on recoverability
Daqing Ruihao Energy Technology Co., Ltd.	13,995,000.00	13,995,000.00	100.00	
Hassian Coal-fired Power Plant Project Company	13,528,183.41			Determination based on recoverability
DACO INTERNATIONAL PVT.COMPANY	12,217,173.11			Determination based on recoverability
Jilin Province Transmission and Transformation Engineering Company	10,947,105.91			Determination based on recoverability
China Energy Construction Group Tianjin Electric Power Construction Co., Ltd.	9,560,398.06			Determination based on recoverability
Xinhua Control Engineering Co., Ltd.	9,238,960.00	9,238,960.00	100.00	Higher risk of recycling
Yunnan Huadian Zhenxiong Power Generation Co., Ltd.	5,500,000.00	5,500,000.00	100.00	Receivables transferred in
TURBINE PARTS MANUFACTURERS ALLLIAN	5,499,952.80	5,499,952.80	100.00	Higher risk of recycling
Jamsholo Tariff Advance	5,120,825.26			Determination based on recoverability
China Energy Construction Group Heilongjiang Energy Construction Co., Ltd.	4,900,000.00			Determination based on recoverability
Harbin Steam Turbine Power Plant Auxiliary Plant	4,861,479.49	4,861,479.49	100.00	Higher risk of recycling
Harbin Electric (Dalian) Electric Power Design Co., Ltd.	4,690,223.97			Determination based on recoverability
Qingdao Jieneng	4,500,000.00	4,500,000.00	100.00	Higher risk of recycling

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(VII) Other receivables (Continued)

2. Details of other receivables (Continued)

(1) Other receivables with individually accruing bad debt provision: (Continued)

Debtor	Other receivables	Closing balance		
		Bad debt provision	Proportion (%)	Reason
Economic Development and Construction Bureau of Dehui City, Jilin Province	4,141,950.00			Determination based on recoverability
Daqing Longjiang Wind Power Co., Ltd.	3,920,000.00	3,920,000.00	100.00	Determination based on recoverability
MUHAMMAD AMIN MUHAMMAD QASEEM	3,380,619.76			Determination based on recoverability
one-time merchant	3,323,730.00			Determination based on recoverability
Heilongjiang Technology Import and Export Corporation	3,265,770.17	3,265,770.17	100.00	Higher risk of recycling
Dalian Pass Gas System Co., Ltd.	3,211,931.34			Determination based on recoverability
Bangladesh Electricity Authority	3,085,273.02	3,085,273.02	100.00	Determination based on recoverability
HABIB BANK LTD	2,709,750.00			Determination based on recoverability
Harbin Import & Export Trading & Transportation Co., Ltd.	2,700,000.00	2,700,000.00	100.00	Higher risk of recycling
Great Leader Thermoelectric (Private) Limited	2,580,941.53			Determination based on recoverability
Ecuador Branch	2,083,828.43			Determination based on recoverability
CCC ENGINEERING LTD.	2,066,892.35			Determination based on recoverability

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(VII) Other receivables (Continued)

2. Details of other receivables (Continued)

(1) Other receivables with individually accruing bad debt provision: (Continued)

Debtor	Other receivables	Closing balance		
		Bad debt provision	Proportion (%)	Reason
HABIB RAFIQ(PVT)LTD	1,922,730.21			Determination based on recoverability
China Coal Shaanxi Yulin Energy Chemical Co., Ltd.	1,807,781.73	1,807,781.73	100.00	Higher risk of recycling
Vietnam Gold Dredger Project Loan	1,711,798.72	1,711,798.72	100.00	cannot be recovered
CCCC Second Navigation Engineering Survey and Design Institute Co., Ltd.	1,646,404.16			Determination based on recoverability
Harbin Huitong Electric Power Engineering Co., Ltd.	1,589,090.35			Determination based on recoverability
Harbin Turbine Equipment General Plant	1,359,947.39	1,359,947.39	100.00	Higher risk of recycling
Harbin Power District Steam Turbine Equipment Parts Factory	1,223,712.04	1,223,712.04	100.00	Higher risk of recycling
PT THE SECOND CONSTRUCTION ENGINEERING T	1,132,115.41			Determination based on recoverability
PT. Handal Energi Indonesia	1,057,352.65			Determination based on recoverability
Others	110,418,836.93	25,284,221.85	22.9	Determination based on recoverability
Total	1,514,360,729.85	284,567,418.91	18.79	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(VII) Other receivables (Continued)

2. Details of other receivables (Continued)

(2) Accounts other receivables accruing bad debt provision in credit risk characteristic portfolio

Accounts other receivables accruing bad debt provision by applying aging analysis:

Age	Closing balance			Opening balance		
	Carrying Amount	proportion (%)	Bad debt provision	Carrying Amount	proportion (%)	Bad debt provision
Within one year (1 year included)	65,475,741.06	22.24	3,136,183.37	70,844,498.73	19.96	3,487,923.27
One to two years (2 year included)	8,570,937.75	2.91	2,142,734.44	13,971,690.57	3.94	3,492,922.64
Two to three years (3 year included)	6,088,423.34	2.07	3,044,211.68	4,540,189.75	1.28	3,182,237.68
Three to four years (4 year included)	23,330,145.44	7.92	19,272,211.55	51,607,239.85	14.54	39,790,391.68
Four to five years (5 year included)	25,848,943.95	8.78	20,723,155.16	69,673,582.24	19.63	57,234,266.02
Over five years	165,129,726.91	56.08	165,129,726.91	144,379,473.27	40.67	144,379,473.27
Total	294,443,918.45		213,448,223.11	355,016,674.41		251,567,214.56

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.

(3) Provision for bad debts of other receivables accrued, recovered or reversed in the current period

The provision for bad debts in the current period was RMB71,315,667.85, and the provision for bad debts was reversed or recovered in the current period of RMB217,658,272.65.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(VII) Other receivables (Continued)

2. Details of other receivables (Continued)

(4) The important write-off of accounts other receivables in this period

Debtor	Nature	Write-off amount	Reasons for writing off	Fulfilment of verification procedures	Is it due to a related transaction
Harbin Dingjie Software Co., Ltd.	advance payment	75,800.00	Company has been cancelled	Application for write-off report, general manager's office meeting minutes, asset impairment preparation financial write-off approval form, business department description, corporate credit information publicity report	No
Total		75,800.00			

(5) The top five other receivables by year-end balance of arrears

Debtor	Nature	Carrying Amount	Age	Proportion (%)	Bad debt provision
China Construction Third Engineering Bureau Second Construction Engineering Co., Ltd. and CSCEC MIDDLE EAST LLC	Payment in advance	357,656,070.91	within 1 year	19.77	
Ecuador's state-owned power holding company	Owner Withholding Penalty	128,216,188.05	Within 1 year, 1-2 years, 2-3 years, 3-4 years	7.09	3,488,205.98
Guizhou Huadian Tangzhai Power Generation Co., Ltd.	Entrusted Loan	99,000,000.00	5+ years	5.47	99,000,000.00
jamsholo power co., ltd.	current payment	85,631,801.89	Within 1 year, 1-2 years	4.73	
Yunnan Huadian Zhenxiong Power Generation Co., Ltd.	Entrusted Loan	76,000,000.00	Above 5 years	4.20	76,000,000.00
Total		746,504,060.85		41.26	178,488,205.98

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(VIII) Redemptory Monetary Capital for Sale

Items	Closing balance	Opening balance
Securities		
Notes		
Loan		
Others	1,600,000,000.00	1,500,000,000.00
Less: Bad debt provision		
Total	1,600,000,000.00	1,500,000,000.00

(IX) Inventories

1. Classification of inventory

Items	Closing balance			Opening balance		
	Carrying Amount	Inventory impairment provision	Book value	Carrying Amount	Inventory impairment provision	Book value
Raw materials	3,255,335,463.43	325,444,171.40	2,929,891,292.03	3,117,224,391.69	240,660,827.41	2,876,563,564.28
Goods in process	6,114,201,838.67	263,564,486.57	5,850,637,352.10	5,139,376,657.42	238,849,137.20	4,900,527,520.22
Finished Goods	524,088,477.20	131,886,334.50	392,202,142.70	452,767,434.36	113,127,370.17	339,640,064.19
Turnover materials (packages, low-value consumables, etc.)	26,242,027.54		26,242,027.54	20,696,320.21		20,696,320.21
Contract performance cost	172,285,048.03	94,069,338.14	78,215,709.89	106,536,926.77		106,536,926.77
Goods sold				2,030,852.19		2,030,852.19
Total	10,092,152,854.87	814,964,330.61	9,277,188,524.26	8,838,632,582.64	592,637,334.78	8,245,995,247.86

Note: 1. 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.

2. At the end of December 31, 2021, Provision for inventory impairment was CNY 814,964,330.61, which represented 8.08% of the original inventory value of CNY 10,092,152,854.87.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(IX) Inventories (Continued)

2. Provision for inventory impairment

Items	Opening balance	Increase		Decrease			Closing balance
		provision	others	turn back	resell	others	
Raw materials	240,660,827.41	106,625,375.92		9,148,875.30	12,693,156.63		325,444,171.40
Goods in process	238,849,137.20	24,715,349.37					263,564,486.57
Finished Goods	113,127,370.17	46,256,311.29		5,392,292.73	22,105,054.23		131,886,334.50
Contract performance costs		94,069,338.14					94,069,338.14
Total	592,637,334.78	271,666,374.72		14,541,168.03	34,798,210.86		814,964,330.61

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.

(X) Contractual assets

1. Details of contractual assets

	Contractual assets
Opening balance	12,727,174,581.99
Increase	4,115,140,754.07
Converted in to accounts receivable in this period	5,999,031,800.49
Closing balance	10,843,283,535.57
Contract asset impairment provision	1,466,489,798.00
Netclosing balance	9,376,793,737.57
Including: listed as contract assets	9,376,793,737.57
listed as other non-current assets	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(X) Contractual assets (Continued)

2. Provision for impairment of assets in the current period

Items	Opening balance	Increase	Decrease	Closing balance
Unexpired warranty	1,358,610,235.43	505,418,657.33	513,693,689.26	1,350,335,203.50
Completed but unsettled amount originally included in inventory	138,421,026.08	22,759,163.87	45,025,595.45	116,154,594.50
Total	1,497,031,261.51	528,177,821.20	558,719,284.71	1,466,489,798.00

(XI) Non-current assets due within one year

	Closing balance	Opening balance
Other bond investments	300,700,800.00	
Long-term receivables due within one year	231,761,721.58	
Total	532,462,521.58	

(XII) Other current assets

Items	Closing balance	Opening balance
Bank financial products		396,885,400.00
Entrust loans	150,000,000.00	150,000,000.00
Deductible input tax and prepay VAT	505,929,163.44	362,589,072.09
Others		46,383.64
Total	655,929,163.44	909,520,855.73

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XIII) Loans and advances issued

1. Loans and advance distributed by individual and business

Items	Closing balance	Opening balance
(1) Individual loan and advance		
– credit card		
– housing-mortgage		
– others		
(2) Business loan and advance	32,000,000.00	25,224,200.00
– loan	30,000,000.00	25,000,000.00
– discount	2,000,000.00	224,200.00
– others		
(3) Total loan and advance	32,000,000.00	25,224,200.00
Less: Loans impairment reserve	800,000.00	630,605.00
Including: individual provision amount		
Combination provision	800,000.00	630,605.00
(4) Book value of loans and advance	31,200,000.00	24,593,595.00

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	32,000,000.00	100.00	25,224,200.00	100.00
Total loan and advance	32,000,000.00	100.00	25,224,200.00	100.00
less: Loans impairment reserve	800,000.00	2.50	630,605.00	2.50
including: individual provision				
Combination provision	800,000.00	2.50	630,605.00	2.50
Book value of loans and advance	31,200,000.00	97.50	24,593,595.00	97.50

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIII) 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	32,000,000.00	100.00	25,224,200.00	100.00
Total loan and advance	32,000,000.00	100.00	25,224,200.00	100.00
Less: loan impairment reserves	800,000.00	2.50	630,605.00	2.50
Including: individual provision				
Combination provision	800,000.00	2.50	630,605.00	2.50
Book value of loan and advance	31,200,000.00	97.50	24,593,595.00	97.50

4. Loan and advance distributed by guarantee

Items	Closing balance	Opening balance
Credit loan	32,000,000.00	25,224,200.00
Guarantee loan		
Collateral loan		
Among: mortgage loans		
Pledge loan		
Total loan and advance	32,000,000.00	25,224,200.00
less: loan impairment reserves	800,000.00	630,605.00
among: individual provision		
Combination provision	800,000.00	630,605.00
Book value of loan and advance	31,200,000.00	24,593,595.00

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIII) Loans and advances issued (Continued)

5. loan loss reserves

Items	Current period		Last period	
	Individual	Combination	Individual	Combination
Opening balance		630,605.00		874,082.85
Provision this year		169,395.00		-243,477.85
Turn out in this year				
Cancel after verification in this year				
Switch back this year				
Closing balance		800,000.00		630,605.00

(XIV) Other debt investment

1. Details of other debt investment

Items	Closing balance	Opening balance
National debt of 2019 (No. 11)		299,978,100.00
Total		299,978,100.00

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XV) Long term receivables

Items	Closing balance			Opening balance			discount rate range at the end of the period (%)
	Carrying Amount	Bad debt provision	Book value	Carrying Amount	Bad debt provision	Book value	
Financing lease payment	251,453,934.46		251,453,934.46	294,242,908.47		294,242,908.47	5.94-8.00
Among: unrealized financing income	38,374,242.73		38,374,242.73	22,097,735.74		22,097,735.74	5.94-8.00
Instalment for sale goods							
Instalment for offer labor service							
Others							
Total	251,453,934.46		251,453,934.46	294,242,908.47		294,242,908.47	

(XVI) Long-term equity investments

1. Classification of long-term equity investment

Items	Opening balance	Increase	Decrease	Closing balance
Investment in subsidiaries	3,000,000.00			3,000,000.00
Investment in cooperative enterprise	34,590,393.24	38,291,914.45		72,882,307.69
Investment in associated enterprise	360,079,080.87	34,647,052.12	2,135,094.81	392,591,038.18
Subtotal	397,669,474.11	72,938,966.57	2,135,094.81	468,473,345.87
Less: impairment for long term equity investments	3,000,000.00	84,811,282.29		87,811,282.29
Total	394,669,474.11	-11,872,315.72	2,135,094.81	380,662,063.58

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XVI) Long-term equity investments

2. Details of long-term equity investment

Investee	Opening balance	Changes in the current period						Closing balance	Provision for impairment loss	Impairment provision at the end of the year
		Increase	Decrease	Under the equity method to confirm the investment profit and loss	Other comprehensive income adjustment	Other equity changes	Declaration of cash dividends or profits			
1 Investment in subsidiaries										
Shenzhen Harbin Power Huihua Trading Company Limited	3,000,000.00							3,000,000.00		3,000,000.00
Subtotal	3,000,000.00							3,000,000.00		3,000,000.00
2 cooperative enterprise										
Harbin electric general gas turbine (Qinhuangdao) Co., Ltd	32,529,109.82	48,500,000.00		-8,597,897.82				72,431,212.00		
Russia-China Power Equipment Co., Ltd.	2,061,283.42			-1,610,187.73				451,095.69		
Subtotal	34,590,393.24	48,500,000.00		-10,208,085.55				72,882,307.69		
3. Associates										
General Electric – Harbin Power Services (Qinhuangdao) Company	140,545,273.52			22,366,560.42				162,911,833.94		
Harbin HE Liling Hydropower Equipment New Technology Development Co., Ltd.	7,351,181.39			355,825.35				7,707,006.74		
Harbin Huitong Power Engineering Company Limited Development Co., Ltd.	4,801,075.38	3,350,000.00		3,444,436.69			1,134,210.48	10,461,301.59		
Hunan Wuling Ha Energy Efficiency Technology Co., Ltd.		900,000.00		450,355.16				1,350,355.16		
Harbin Ruifeng New Energy Co., Ltd.	29,912,893.70			3,901,914.25			1,000,884.33	32,813,923.62		
Shenyang Dewat Steam Turbine Power Co., Ltd.	57,702,000.00			-6,572,914.32				51,129,085.68		
Liaocheng Xiangguang Power Generation Co., Ltd.	110,000,000.00	6,179,000.00						116,179,000.00	84,811,282.29	84,811,282.29
Harbin Electric (Dalian) Electric Power Design Co., Ltd.	9,766,656.88			271,874.57				10,038,531.45		
Subtotal	360,079,080.87	10,429,000.00		24,218,052.12			2,135,094.81	392,591,038.18	84,811,282.29	84,811,282.29
Total	397,669,474.11	58,929,000.00		14,009,966.57			2,135,094.81	468,473,345.87	84,811,282.29	87,811,282.29

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XVII) Other equity instruments investments

1. Details of other equity instruments

Items	Closing balance	Opening balance
Huaneng International Power Co., Ltd.		341,984,728.96
China United Heavy Gas Turbine Technology Co., Ltd.	132,000,000.00	132,000,000.00
Jiangsu Fenghai New Energy Desalination Seawater Co., Ltd.	30,000,000.00	30,000,000.00
Heilongjiang Xintian Harbin Electric New Energy Investment Co., Ltd.	2,000,000.00	2,000,000.00
Beijing All Three-dimensional Power Engineering Co., Ltd.	400,000.00	400,000.00
Harbin Xinrun Industry Co., Ltd.		695,000.00
Harbin Power Equipment Logistics Co., Ltd.	1,000,000.00	1,000,000.00
Jinhui Zhaofeng Energy Co., Ltd.	44,473,416.18	41,518,824.18
Tianjin Binhai Industry Fund Management	20,000,000.00	20,000,000.00
Xinjiang Gezhouba Dashixia Water Control Project Development Co., Ltd.	22,150,000.00	
Tianjin Bogang No. 14 Enterprise Management (Limited Partnership)	1,718,984.80	1,718,984.80
Total	253,742,400.98	571,317,537.94

2. The important other equity instruments investments at the end of year

Items	The cost of investment	Changes in fair value	Fair value at the end of the period
		accumulated into other comprehensive income	
Tianjin Binhai Industrial Fund Management Co., Ltd.	20,000,000.00		20,000,000.00
China United Heavy Gas Turbine Technology Co., Ltd.	132,000,000.00		132,000,000.00
Jiangsu Fenghai New Energy Desalination Seawater Co., Ltd.	30,000,000.00		30,000,000.00
Total	182,000,000.00		182,000,000.00

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XVIII) Other non current financial assets

Items	Fair value at the end of the period	Fair value at the beginning of the period
Derivative financial instruments		167,567,126.04
Total		167,567,126.04

Note: The derivative financial instruments added in this year are the long-term foreign exchange settlement and sale business of Harbin Electric International Engineering Co., Ltd.

(XIX) Investment property

1. Investment properties measured by cost

Items	Opening balance	Increase	Decrease	Closing balance
(I) Original carrying value	310,328,990.58	4,279,031.28		314,608,021.86
Housing and buildings	310,018,990.58	4,279,031.28		314,298,021.86
Land use rights	310,000.00			310,000.00
(II) Accumulated depreciation and accumulated amortisation	107,753,506.20	14,756,929.17		122,510,435.37
Housing and buildings	107,693,055.81	14,750,729.13		122,443,784.94
Land use rights	60,450.39	6,200.04		66,650.43
(III) Total net book value	202,575,484.38			192,097,586.49
Housing and buildings	202,325,934.77			191,854,236.92
Land use rights	249,549.61			243,349.57
(IV) Provision for impairment				
Housing and buildings				
Land use rights				
(V) Carrying Value	202,575,484.38			192,097,586.49
Housing and buildings	202,325,934.77			191,854,236.92
Land use rights	249,549.61			243,349.57

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XIX) Investment property (Continued)

2. Investment real estate by the region and the years are as follows:

Items	Closing balance	Opening balance
In China	153,715,177.54	150,320,063.60
Medium-term (10 to 50 years)	29,284,237.71	129,234,026.89
Short-term (10 years)	124,430,939.83	21,086,036.71
In Dubai	38,382,408.95	52,005,871.17
Medium-term (10 to 50 years)		52,005,871.17
Short-term (10 years)	38,382,408.95	
Total	192,097,586.49	202,325,934.77

(XX) Fixed assets

Items	Closing balance	Opening balance
Fixed assets	5,412,526,694.03	5,645,998,218.56
Fixed assets cleanup		
Total	5,412,526,694.03	5,645,998,218.56

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XX) Fixed assets (Continued)

1. Details of fixed assets

Items	Housing and buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office facilities	other	Total
1. Original carrying value							
(1) Opening balance	5,039,062,285.94	8,222,314,136.21	360,304,842.09	663,749,328.88	313,018,688.80	44,733,659.78	14,643,182,941.70
(2) Increase in the period	197,365,677.32	151,768,882.55	10,414,237.77	663,749,328.88	226,285,658.42		656,218,121.09
– acquired	465,010.60	8,010,594.14	1,945,839.46	17,634,779.98	12,248,468.80		40,304,692.98
– transfer from construction in progress or other else	194,034,506.81	140,218,225.12	7,409,107.89	40,704,816.43	14,473,539.50		396,840,195.75
– transfer from development expenditures							
– transfer from R&D expenditures				308,752.72			308,752.72
– business combination							
– others	2,866,159.91	3,540,063.29	1,059,290.42	11,735,315.90	199,563,650.12		218,764,479.64
(3) Decrease in the period	21,448,547.82	290,821,608.05	15,680,563.37	11,801,755.28	27,844,126.99		367,596,601.51
– disposal or retired	15,862,911.35	75,663,717.89	12,039,745.01	10,699,696.69	6,321,777.35		120,587,848.29
– Roll out	4,445,965.10						4,445,965.10
– Other decrease	1,139,671.37	215,157,890.16	3,640,818.36	1,102,058.59	21,522,349.64		242,562,788.12
(4) Closing balance	5,214,979,415.44	8,083,261,410.71	355,038,516.49	784,179,126.38	494,345,992.26		14,931,804,461.28
2. Accumulated depreciation							
(1) Opening balance	1,849,305,369.40	6,004,697,790.89	325,182,791.03	541,717,019.40	215,759,570.36	13,491,630.74	8,950,135,400.59
(2) Increase in the period	151,045,356.92	377,607,102.84	10,423,073.44	64,537,968.32	194,380,183.90		797,993,685.42
– provision	149,492,797.76	377,607,102.84	9,955,880.20	57,985,079.13	30,663,977.04		625,704,836.97
– others	1,552,559.16		467,193.24	6,552,889.19	163,716,206.86		172,288,848.45
(3) Decrease in the period	15,797,820.91	218,842,141.87	14,908,819.56	11,260,496.99	17,523,918.24		278,333,197.57
– disposal or retired	10,427,883.25	56,527,709.04	11,403,158.23	10,296,313.69	6,100,418.74		94,755,482.95
– roll out	4,277,443.14						4,277,443.14
– Others	1,092,494.52	162,314,432.83	3,505,661.33	964,183.30	11,423,499.50		179,300,271.48
(4) Closing balance	1,984,552,905.41	6,163,462,751.86	320,697,044.91	635,785,283.14	365,297,903.12		9,469,795,888.44
3. Provision for impairment							
(1) Opening balance	12,079,006.54	33,817,360.80	1,150,808.70	2,146.51			47,049,322.55
(2) Increase in the period	265,557.44	2,416,465.83		72,967.01			2,754,990.28
– provision	265,557.44	2,489,432.84					2,754,990.28
– construction in progress							
– others		-72,967.01		72,967.01			
(3) Decrease in the period		291,958.61		30,475.41			322,434.02
– disposal or retired		291,958.61		30,475.41			322,434.02
– others							
(4) Closing balance	12,344,563.98	35,941,868.02	1,150,808.70	44,638.11			49,481,878.81
4. Carrying value							
(1) Carrying value at the end of the year	3,202,192,109.28	1,883,856,790.83	33,190,662.88	148,349,205.13	144,937,925.91		5,412,526,694.03
(2) Carrying value in the beginning of the year	3,177,677,910.03	2,183,798,984.52	33,990,013.56	122,030,162.97	97,259,118.44	31,242,029.04	5,645,998,218.56

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XX) Fixed assets (Continued)

2. Fixed assets without property certificates

Items	Book value	Reasons for without property certificates
Housing and buildings	122,550,498.95	Part of land use rights and property ownership of the Company were dealt separately. The properties were not registered with property certificates.

3. Buildings according to the area and year of analysis is as follows:

Items	Closing balance	Opening balance
In China	3,101,536,137.26	3,056,312,243.23
Medium-term (10 to 50 years)	2,294,446,815.44	3,056,312,243.23
Short-term (10 years))	807,089,321.82	
In Dubai	100,655,972.02	121,365,666.80
Medium-term (10 to 50 years)	100,655,972.02	121,365,666.80
Short-term (10 years)		
Total	3,202,192,109.28	3,177,677,910.03

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXI) Construction in process

Items	Closing balance			Opening balance		
	Remaining carrying amount	Provision for impairment	Carrying value	Remaining carrying amount	Provision for impairment	Carrying value
Ecological Environmental Protection Project development support project	52,542,003.28		52,542,003.28			
Construction project	18,219,698.54		18,219,698.54	5,663,857.75		5,663,857.75
Five key projects	14,542,866.66		14,542,866.66	23,723,750.25		23,723,750.25
Dehui 1×40MW Biological Resources Cogeneration Project	8,624,596.63		8,624,596.63			
Wangkui 1×40MW Biological Resources Cogeneration Project	326,084,937.48		326,084,937.48	2,310,963.43		2,310,963.43
Technical transformation project	282,887,881.71		282,887,881.71	1,437,705.19		1,437,705.19
Equipment purchase and installation	6,323,349.03		6,323,349.03	3,520,251.17		3,520,251.17
Anhuan Project	5,024,762.60		5,024,762.60	6,071,899.06		6,071,899.06
Other projects	3,064,242.31		3,064,242.31			
Engineer material	2,805,488.12	636,749.46	2,168,738.66	35,479,588.66	569,610.88	34,909,977.78
	30,727,523.79		30,727,523.79	36,669,908.01		36,669,908.01
Total	750,847,350.15	636,749.46	750,210,600.69	114,877,923.52	569,610.88	114,308,312.64

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXI) Construction in process (Continued)

1. Significant changes in construction in progress

Project	Budget (wan yuan)	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
Construction project	45,700.00	23,723,750.25	1,637,334.48	10,818,218.07		14,542,866.66	87.00	95.00				Group funding
Ecological Environmental Protection Project	28,000.00	110,190,859.35	95,847,438.13	152,798,243.99	698,050.21	52,542,003.28	82.30	85.00	8,194,569.22	3,877,870.02	5.68	Own funds and corporate borrowing funds
Five key projects	2,340.00		10,111,322.30	1,486,725.67		8,624,596.63	43.00	43.21				State appropriation, self- financing
CNC milling, drilling and grinding high-precision machining equipment for steam generators	987.43	2,962,300.88	3,014,867.25			5,977,168.13	61.00	61.00				Self-raises
device installation	2,720.00	6,071,899.06	21,110,614.58	22,157,751.04		5,024,762.60	82.00	82.00				Self-raises
other projects	18,000.00	11,594,127.39	44,429,723.99	42,516,804.07	10,304,124.65	3,202,922.66	78.00	79.00				Self-raises
Dehui 1×40MW Biological Resources Cogeneration Project	47,433.00	2,310,963.43	323,773,974.05			326,084,937.48	70.78	70.78	1,854,328.74	1,854,328.74	3.73	Higher-level allocation and self-financing
Wangkui 1×40MW Biological Resources Cogeneration Project	45,682.00	1,437,705.19	281,450,176.52			282,887,881.71	64.03	64.03	714,172.44	714,172.44	3.97	Higher-level allocation and self-financing
Total	190,862.43	158,291,605.55	781,375,451.30	229,777,742.84	11,002,174.86	698,887,139.15			10,763,070.40	6,446,371.20		

2. Construction materials

Items	Closing balance	Opening balance
Engineering machinery and equipment	30,727,523.79	36,669,908.01
Total	30,727,523.79	36,669,908.01

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XXII) Intangible assets

Items	Software	Land use rights	Patent	Non-patented technology	Franchise	Others	Total
1. Original carrying value							
(1) Opening balance	124,571,890.50	788,239,056.38	3,464,929.43	230,783,904.19	624,445,532.55	9,559,674.74	1,781,064,987.79
(2) Increase in the period	42,152,883.35	53,385,697.75	2,886,106.23	311,946.92		459,698.52	99,196,332.77
– acquired	27,351,618.25	53,385,697.75				459,698.52	81,197,014.52
internal research and development	5,086,584.01		2,886,106.23	311,946.92			8,284,637.16
– Transfer from others	9,714,681.09						9,714,681.09
(3) Decrease in the period		4,964,589.60				6,571,990.15	11,536,579.75
– disposal		4,964,589.60					4,964,589.60
– others						6,571,990.15	6,571,990.15
(4) closing balance	166,724,773.85	836,660,164.53	6,351,035.66	231,095,851.11	624,445,532.55	3,447,383.11	1,868,724,740.81
2. accumulated amortization							
(1) Opening balance	64,009,980.15	290,624,077.86	3,456,915.35	217,600,180.31	220,749,002.99	5,545,583.75	801,985,740.41
(2) Increase in the period	16,663,637.60	18,271,047.90	24,050.89	2,894,104.46	80,917,161.20	263,051.46	119,033,053.51
– Provision	16,663,637.60	18,271,047.90	24,050.89	2,894,104.46	62,120,157.57	263,051.46	100,236,049.88
– others					18,797,003.63		18,797,003.63
(3) Decrease in the period		1,681,389.43		18,797,003.63		3,965,228.55	24,443,621.61
– disposal		1,681,389.43					1,681,389.43
– others				18,797,003.63		3,965,228.55	22,762,232.18
(4) Closing balance	80,673,617.75	307,213,736.33	3,480,966.24	201,697,281.14	301,666,164.19	1,843,406.66	896,575,172.31
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
4. Carrying value							
(1) Carrying value at the end of the period	83,913,779.69	529,446,428.20	2,870,069.42	20,996,058.26	322,779,368.36	1,513,113.19	961,518,817.12
(2) Carrying value in the beginning of the year	58,424,533.94	497,614,978.52	8,014.08	4,781,212.17	403,696,529.56	3,923,227.73	968,448,496.00

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXIII) Development disbursements

Items	Opening balance	Increase		Decrease			Closing balance
		Internal development expenditure	others	Confirmed as intangible assets	Recorded into the profits and losses of the current period	others	
Capitalization Expenditure-Major Special Project-							
CPA1400 Canned Motor Pump (Motor) Rotor Shaft							
Alternative Material Development	22,559,312.77	23,083,431.29			13,587,824.22	980,100.00	31,074,819.84
State-owned capital project	11,716,757.50	36,953,655.68		2,194,690.30		7,419,232.74	39,056,490.14
ERP Phase I Project	10,341,509.46	1,149,056.61					11,490,566.07
ERP Phase II Project	4,746,226.42	6,328,301.90					11,074,528.32
Data Sharing Exchange Platform V1.0 (2019-KJGLB-15)	416,150.44	21,902.65		438,053.09			
Harbin Electric Group Customer Relationship Management System Phase I	250,992.65	64,150.94					315,143.59
Human resources system project	1,174,620.42			1,174,620.42			
Turbine Welded Rotor			7,678,610.56				7,678,610.56
LNG low-temperature tap	311,946.92	491,266.13		311,946.92	396,258.55	95,007.58	
Typical high-energy-consuming technology application demonstration flue gas sampling gun	43,320.75	10,830.19		54,150.94			
Archival and electronic business document information platform construction project	171,180.01						171,180.01
Development of test and evaluation system for ultra- supercritical main steam safety valve and research on test technology		8,809,906.23			2,580,663.75	6,229,242.48	
Industrialization Development of Key Valves for Ultra- Supercritical Thermal Power Units		10,061,359.21			4,255,182.82	5,806,176.39	
Development of Petrochemical High-end Ball Butterfly Valve		5,135,863.77			4,790,294.87	345,568.90	
630℃ Research on the key technology of the second reheat Ultra Supercritical	155,963.30	260,527.04				416,490.34	
Development of Nuclear Power Bypass Control Valve		4,533,026.80				334,973.51	4,198,053.29
others	1,572,968.72	16,621,315.29	2,673,924.67	7,745,429.83	7,286,132.83	4,671,215.38	1,165,430.64
Total	53,460,949.36	113,524,593.73	10,352,535.23	11,918,891.50	32,896,357.04	26,298,007.32	106,224,822.46

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XXIV) Goodwill

1. Book value of goodwill

The name of the investee or matters that form goodwill	Opening Balance	Increase in this period	Decrease in this period	Ending balance
Jilin Province Zesheng Environmental Protection Engineering Co., Ltd.		23,919,751.92		23,919,751.92
Total		23,919,751.92		23,919,751.92

(XXV) Long-term deferred expenses

Items	Opening balance	Increase in the period	Amortised in the period	Other decreased amount	Closing balance	Other decreased reason
Jiangbei office building decoration	6,657,421.97		2,810,267.35		3,847,154.62	
Improvement of the rented fixed assets	10,979.19		10,979.19			
Improvement of fixed assets	1,065,598.06	2,075,089.65	102,331.68	59,334.93	2,979,021.10	Converted to fixed assets
Office building renovation costs		886,559.65	250,913.10		635,646.55	
Others		211,285.71	185,000.00		26,285.71	
Total	7,733,999.22	3,172,935.01	3,359,491.32	59,334.93	7,488,107.98	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XXVI) Deferred tax assets and Deferred tax liabilities

1. *Deferred tax assets and deferred tax liabilities are not presented on a net basis*

Items	Closing balance		Opening balance	
	Deferred tax assets or liabilities	Deductible or Taxable Temporary Differences	Deferred tax assets or liabilities	Deductible or Taxable Temporary Differences
Deferred income tax assets	738,010,696.54	5,176,193,306.97	538,049,449.57	3,466,237,297.70
Impairment of assets	425,215,771.61	2,902,989,735.32	418,033,643.45	2,666,146,523.55
Changes in fair value of hedging instruments included in other comprehensive interests	-175,200.00	-700,800.00	5,475.00	21,900.00
Deductible loss	70,009.28	466,728.52	44,439.45	296,262.97
Changes in fair value of hedging instruments			-25,135,068.91	-167,567,126.04
Estimate liabilities	288,906,697.45	2,113,481,521.86	130,309,099.32	868,727,328.84
Dismission welfare	23,993,418.20	159,956,121.36	14,791,861.26	98,612,408.38
Deferred income tax liabilities				

2. *Breakdown of unrecognized deferred income tax assets*

Items	Closing balance	Opening balance
Deductible temporary difference	6,592,678,268.05	2,981,247,949.49
Deductible loss	2,985,499,823.65	2,247,953,799.35
Total	9,578,178,091.70	5,229,201,748.84

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XXVII) Short-term borrowings

Items	Closing balance	Opening balance
Pledged loan		
Mortgage loan		15,600,000.00
Guaranteed loan (note 1)	155,000,000.00	360,000,000.00
Credit loan	5,068,060,625.25	4,765,006,340.72
Total	5,223,060,625.25	5,140,606,340.72

(XXVIII) Notes payable

Type	Closing balance	Opening balance
Bank acceptance	1,238,206,290.26	4,810,756,352.03
Business acceptance	6,019,460,557.86	1,464,703,073.40
Total	7,257,666,848.12	6,275,459,425.43

(XXIX) Accounts payable

Items	Closing balance	Opening balance
Within 1 year (1 year included)	11,119,876,552.54	9,459,879,114.35
1-2 years (2 year included)	1,045,491,677.88	2,318,199,262.55
2-3 years (3 year included)	867,841,747.48	524,058,113.93
Over 3 years	842,753,341.52	677,248,469.96
Total	13,875,963,319.42	12,979,384,960.79

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXIX) Accounts payable (Continued)

1. Significant accounts payable aging for more than a year:

Name of creditor	ending balance	Outstanding cause
China First Heavy Machinery Corporation	137,117,359.89	Not yet settled
Dalian Huarui Heavy Industry International Trade Co. LTD	54,071,279.88	The contract has not been fulfilled yet
CCCC second Navigation Engineering Survey and Design Institute Co. LTD	53,730,581.63	The contract has not been fulfilled yet
SAUDIARABIANAMIANTITCOMPANY	48,346,880.24	The contract has not been fulfilled yet
Deyang Dongqi Power Station Machinery Manufacturing Co. LTD	45,119,456.14	Not yet settled
Hangzhou Boiler Group Co., Ltd.	44,731,199.99	The contract has not been fulfilled yet
Jingdezhen Mingxing Aviation forging and pressing Co. LTD	43,365,112.90	Not yet settled
Beijing Electric Power Equipment General Factory Co. LTD	38,833,396.25	The contract has not been fulfilled yet
Dalian Huarui Heavy Industry Group Co.,Ltd	33,436,438.02	Not yet settled
AndritzAG	32,719,855.05	unfinished
Northeast Electric Power Design Institute of China Power Engineering Consulting Group	31,609,389.11	The contract has not been fulfilled yet
Wuxi Turbine Blade Co., LTD	31,080,007.16	Not yet settled
Zhejiang Bofan Power Equipment Co., LTD	28,705,365.74	Not yet settled
China Power Engineering Consulting Group Zhongnan Electric Power Design Institute Co. LTD	27,287,500.00	The contract has not been fulfilled yet
Baoding Tianwei Baobian Electric Co., LTD	26,747,765.08	The contract has not been fulfilled yet
Shanghai Blower Factory Co., LTD	24,408,974.00	The contract has not been fulfilled yet
Beijing Cisri-Gaona Materials & Technology Co., Ltd.	23,163,319.12	Not yet settled
China Construction Steel Structure Co., LTD	22,695,129.58	The contract has not been fulfilled yet
Nantong Xiaoxing Transformer Co., LTD	22,349,320.00	The contract has not been fulfilled yet
Shenyang Kejin Special Materials Co., LTD	22,226,077.83	Not yet settled
China Huadian Technology & Engineering Group Co. LTD	20,499,456.95	The contract has not been fulfilled yet
Jilin Province power transmission and transformation Engineering Company	18,273,387.65	The contract has not been fulfilled yet
Dalian Paisi Gas System Co., LTD	17,756,458.80	The contract has not been fulfilled yet

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXIX) Accounts payable (Continued)

1. Significant accounts payable aging for more than a year:

Name of creditor	ending balance	Outstanding cause
Xi 'an Xidan Switch Electric Co., LTD	17,093,000.00	The contract has not been fulfilled yet
Power China Changchun Power Generation Equipment Co. LTD	16,984,051.00	The contract has not been fulfilled yet
Holden Wah Engineering Co. LTD	16,470,000.00	The amount owed is the warranty, which has not passed the warranty period
Jerry Oil & Gas Engineering Co. LTD	16,301,000.00	The contract has not been fulfilled yet
Changzhi Qinghua Steel Structure Co. LTD	16,209,780.32	The amount owed is the warranty, which has not passed the warranty period
Erzhong (Deyang) Heavy Equipment Co., LTD	16,131,522.20	The contract has not been fulfilled yet
Zhongshui Northeast Survey, Design and Research Co. LTD	15,844,726.50	The payment date has not arrived
Hubei Province Electric Power Construction First Engineering Co. LTD	14,721,277.55	The contract has not been fulfilled yet
Advanced Technology & Materials Co., Ltd.	12,641,011.74	unfinished
Bohai Heavy Industry Pipeline Co. LTD	12,422,137.40	The contract has not been fulfilled yet
Guangdong Boying Welding Technology Co., LTD	12,255,802.48	The amount owed is the warranty, which has not passed the warranty period
Fujian Longjing Environmental Protection Co., LTD	11,054,564.00	The contract has not been fulfilled yet
Shandong Electric Power Equipment Co. LTD	10,680,000.00	The contract has not been fulfilled yet
Power China Beijing Engineering Corporation LTD	10,375,992.21	The payment date has not arrived
Jiaozuo Kerisen Reloading Co., LTD	10,268,000.00	The contract has not been fulfilled yet
FUTUREPIPEINDUSTRIESLLC	10,140,845.22	The contract has not been fulfilled yet
Nanjing Great Tower Manufacturing Co. LTD	9,717,548.28	The contract has not been fulfilled yet
Guangzhou Goaland Energy Conservation Tech Co.,Ltd	9,276,229.00	Unfinished execution
Guangzhou South Pipeline Co. LTD	9,160,229.00	The amount owed is the warranty, which has not passed the warranty period
Henan Weihua Heavy Machinery Co. LTD	9,075,270.80	The contract has not been fulfilled yet

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XXIX) Accounts payable (Continued)

1. Significant accounts payable aging for more than a year:

Name of creditor	ending balance	Outstanding cause
ARABIANCOMPANYFORWATERPIPEINDUSTRYLTD	8,761,588.70	The contract has not been fulfilled yet
Shandong Electric Power Equipment Manufacturing Co. LTD	8,635,600.00	The contract has not been fulfilled yet
Franctek Heavy Industries Co., LTD	8,582,046.40	The contract has not been fulfilled yet
Xi 'an Xdian International Engineering Co. LTD	8,550,000.00	The contract has not been fulfilled yet
Zhongshan Zhongju Heyao Technology Co., LTD	8,369,909.00	The amount owed is the warranty, which has not passed the warranty period
Shanghai Westinghouse High-tech Enterprise Development Co., LTD	8,111,350.00	The contract has not been fulfilled yet
China Construction Third Engineering Bureau No.2 Construction Engineering Co., LTD	8,109,250.04	The contract has not been fulfilled yet
Xiamen ABB Low Voltage Electrical Equipment Co., LTD	7,232,218.76	The contract has not been fulfilled yet
Beijing Star Aircraft Electrical Equipment Factory	7,200,000.00	Contract not terminated
Tuxing (Fujian) Steel Structure Co., LTD	7,095,877.80	The contract has not been fulfilled yet
Guizhou Aerospace Xinli Casting and Forging Co. LTD	6,786,263.91	unfinished
Aimec Environmental Protection Industry (Wuhan) Co., LTD	6,570,292.92	The contract has not been fulfilled yet
Dalian Shida Heavy Industry Co. LTD	5,995,600.00	The contract has not been fulfilled yet
Guangzhou Siemens Transformer Co. LTD	5,982,888.00	The contract has not been fulfilled yet
Qingdao Shuangrui Marine Environmental Engineering Co., LTD	5,815,645.50	The contract has not been fulfilled yet
ElectricasDeMedellinIngenieriaYServiciosS.A.	5,155,918.16	The contract has not been fulfilled yet
Wuxi Tian Bearing Steel Engineering Co., LTD	5,049,750.00	The contract has not been fulfilled yet
		total
total	1,227,100,897.90	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XXX) Contractual liabilities

Items	Contractual liabilities
Opening balance	12,017,553,327.95
Increase	7,572,943,509.17
Interest adjustment	
The income confirmed in the current period includes the income in the balance at the beginning of the year.	4,544,885,530.16
Closing balance	15,045,611,306.96
Including: listed as contractual liabilities	15,045,611,306.96
listed as other non-current liabilities	

(XXXI) Deposits and placements from other financial institutions

Items	Closing balance	Opening balance
Current deposit	171,359,265.43	320,169,303.83
Fixed time deposit	10,000,000.00	558,165.49
Call deposits	184,567,820.00	147,264,275.35
Total	365,927,085.43	467,991,744.67

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXII) Employee benefits payable

1. Listed salary payable

Items	Opening balance	Increase	Decrease	Closing balance
1. Short term compensation	485,321,010.07	2,211,465,463.36	2,258,503,982.09	438,282,491.34
2. Retirement benefit- Established Withdrawal and Deposit Scheme	419,361.26	299,731,682.54	299,663,113.80	487,930.00
3. Termination benefits	52,591,781.75	67,693,869.92	46,235,373.97	74,050,277.70
4. Other benefits due within one year				
5. Others		14,279,550.51	61,531.81	14,218,018.70
Total	538,332,153.08	2,593,170,566.33	2,604,464,001.67	527,038,717.74

2. Short-term Remuneration

Items	Opening balance	Increase	Decrease	Closing balance
1. Salary, inducement, allowance, and subsidies	243,839,270.44	1,597,266,884.31	1,659,997,004.80	181,109,149.95
2. Employee benefits fee	16,968.18	188,511,421.11	188,510,197.29	18,192.00
3. Social insurance fee	9,118.28	138,067,975.43	138,039,178.34	37,915.37
Of which: medical insurance fee and maternity insurance fee	9,144.17	118,324,951.55	118,334,095.72	
Work injury insurance fee		14,439,800.54	14,439,800.54	
others	-25.89	5,303,223.34	5,265,282.08	37,915.37
4. Housing provident fund	128,721.00	181,998,111.38	181,998,432.38	128,400.00
5. Staff Union fee and Staff training cost	241,326,859.17	59,324,257.10	43,662,355.25	256,988,761.02
6. Short-term paid leave				
7. Short-term profit-sharing plan				
8. Other short-term Remuneration	73.00	46,296,814.05	46,296,814.05	73.00
Total	485,321,010.07	2,211,465,463.36	2,258,503,982.09	438,282,491.34

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XXXII) Employee benefits payable (Continued)

3. Established Withdrawal and Deposit Scheme

Items	Opening balance	Increase	Decrease	Closing balance
1. Basic retirement Insurance	24,307.20	232,192,327.86	232,216,635.06	
2. Unemployment insurance fee	132,110.86	6,874,709.39	7,006,820.25	
3. Corporate annuity	262,943.20	60,664,645.29	60,439,658.49	487,930.00
Total	419,361.26	299,731,682.54	299,663,113.80	487,930.00

(XXXIII) Taxes and surcharges payable

Items	Opening balance	Payable	Paid	Closing balance
VAT	319,616,009.25	586,405,889.31	681,666,717.61	224,355,180.95
Enterprise income tax	25,496,602.65	83,940,934.45	86,379,093.17	23,058,443.93
Urban maintenance and construction tax	18,693,282.27	34,709,491.50	44,531,478.70	8,871,295.07
Property Tax	3,273,672.26	45,332,135.32	45,453,094.92	3,152,712.66
Land use tax	2,088,215.27	26,596,839.91	26,591,993.94	2,093,061.24
Individual income tax	11,920,292.34	35,863,442.25	34,009,134.95	13,774,599.64
Educational Surtax	13,377,844.10	24,945,428.82	31,934,883.49	6,388,389.43
Others	55,615,366.98	451,753,484.43	434,720,043.28	72,648,808.13
Total	450,081,285.12	1,289,547,645.99	1,385,286,440.06	354,342,491.05

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXIV) Other payables

Items	Closing balance	Opening balance
Interest payable	9,621,878.32	16,176,773.08
Dividend payable	3,482,486.16	3,482,873.50
Other payables	531,441,081.36	410,098,299.15
Total	544,545,445.84	429,757,945.73

1. Interest payable

Items	Closing balance	Opening balance
Interest for long-term borrowings		
Interest of corporate bond		
Interest payable of short-term borrowings	2,716,877.51	6,887,399.23
others	6,905,000.81	9,289,373.85
Total	9,621,878.32	16,176,773.08

2. Dividends payable

Items	Closing balance	Opening balance
Common stock dividends	3,482,486.16	3,482,873.50
Total	3,482,486.16	3,482,873.50

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXIV) Other payables (Continued)

3. Other payables

(1) Other payable shown as age

Items	Closing balance	Opening balance
Within one year	233,439,384.32	324,850,495.11
1-2 years (2 years included)	76,162,907.15	22,099,385.00
2-3 years (3 years included)	116,953,826.65	11,623,799.00
Over 3 years	104,884,963.24	51,524,620.04
Total	531,441,081.36	410,098,299.15

(2) Significant other payables aged over 1 year

Creditors	Closing balance	Reasons for
Longyu Hongda Investment Management Co., Ltd.	83,520,880.00	Fund borrowing is not due
Northern Heavy Industry Group Co., Ltd.	50,723,271.00	lawsuit pending
Party building work expenses	8,996,828.25	Party building work expenses
Installation Branch of China Water Resources and Hydropower Eighth Engineering Bureau Co., Ltd.	7,758,808.02	The contract is not over
China Energy Construction Group Tianjin Electric Power Construction Co., Ltd.	6,162,159.45	The contract is not over
Total	157,161,946.72	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXV) Current portion of non-current liabilities

Items	Closing balance	Opening balance
Long-term borrowings due within one year	1,188,794,302.00	
Total	1,188,794,302.00	

(XXXVI) Other current liabilities

Items	Closing balance	Opening balance
Financing lease accounts payable	463,280.00	428,655.00
Total	463,280.00	428,655.00

(XXXVII) Long-term borrowings

Items	Closing balance	Opening balance	rate range (%)
Pledged loan			
Mortgage loan	191,378,120.00		
Guaranteed loan			
Credit loan	841,688,524.43	1,884,779,453.00	
Total	1,033,066,644.43	1,884,779,453.00	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XXXVIII) Long-term payables

Items	Opening balance	Increase in this period	Decrease in this period	Closing balance
Long term payable	1,000,000.00			1,000,000.00
Special payable	41,881,194.29		22,461,400.00	19,419,794.29
Total	42,881,194.29		22,461,400.00	20,419,794.29

1. *The top five items of Long-term payables at the end of the year*

Items	Closing balance	Opening balance
Total	1,000,000.00	1,000,000.00
including: 1. Harbin Electric Corporation	1,000,000.00	1,000,000.00

2. *The top five items of Special payable at the end of the year*

Items	Opening balance	Increase in this period	Decrease in this period	Closing balance
Total	13,975,241.79	-	-	13,975,241.79
Research Institute Project	4,552,892.77			4,552,892.77
Funds for the development of high-tech industries	3,000,000.00			3,000,000.00
Development of 200MW-class high-power gas turbines, etc.	2,500,000.00			2,500,000.00
Three expenses of science and technology	1,972,349.02			1,972,349.02
Science and technology fees	1,950,000.00			1,950,000.00

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XXXIX) Long-term employee benefits payable

Items	Opening balance	Increase in this period	Decrease in this period	Closing balance
1. Post-employment benefits		221,413.00	47,557.96	173,855.04
2. Termination benefits	152,433,979.11	245,212,211.50	18,841,330.37	378,804,860.24
Other long-term employee benefits		7,118,194.28		7,118,194.28
Total	152,433,979.11	252,551,818.78	18,888,888.33	386,096,909.56

(XL) Provisions

Items	Closing balance	Opening balance
pending litigation	519,312.00	
product quality assurance	237,449,958.53	181,576,051.47
Pending onerous contracts	2,021,663,990.75	827,498,417.00
others		
Total	2,259,633,261.28	1,009,074,468.47

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.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLI) Deferred income

Items	Opening balance	Increase	Decrease	Closing balance
Government grants	265,816,002.56	78,069,385.30	79,662,704.51	264,222,683.35
Total	265,816,002.56	78,069,385.30	79,662,704.51	264,222,683.35

Itemss involved in government grants:

Items	Opening balance	New addition	Included in current profit and loss	Other changes	Closing balance	Associated with the asset/related to earnings
CAP1400 shielded motor main pump development project	50,620,205.00		6,011,460.24		44,608,744.76	Asset related
Supporting Fund Subsidies for Jiangbei Scientific Research Base Projects	33,861,905.59		1,363,566.66		32,498,338.93	Asset related
CAP1400 main pump canned motor water lubricated bearing simulation test bench and experimental research project	43,475,115.42		6,003,399.58		37,471,715.84	Asset related
Construction of nuclear power main pump motor manufacturing base	18,640,992.22		589,853.33		18,051,138.89	Income related
AP1000 Canned Electric Pump Manufacturing Technology Project	17,668,010.99		3,797,509.92		13,870,501.07	Income related
Large steam turbine welding rotor complete set of equipment	8,346,800.00		8,346,800.00			Income related
FY42.059 Industrialization Development of Key Valves for Ultra-Supercritical Thermal Power Units	7,490,000.00		4,890,000.00		2,600,000.00	Income related
Three Gorges giant fully air-cooled unit 820-00-1104	5,625,000.00		5,625,000.00			Asset related
Provincial Innovation Product Achievement Transformation 820-00-2005	4,999,410.46		130,842.84		4,868,567.62	Income related
Touyan project team funding	7,625,097.25	11,920,000.00	8,386,640.24		11,158,457.01	Income related
State-approved project funding	4,369,645.40	431,938.84			4,801,584.24	Income related

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLI) Deferred income (Continued)

Itemsss involved in government grants: (Continued)

Items	Opening balance	New addition	Included in current profit and loss	Other changes	Closing balance	Associated with the asset/related to earnings
Land Subsidy for Power Station Valve Technical Transformation Project	4,242,666.63		212,133.34		4,030,533.29	Income related
600MW tidal current generator development 820-00-1308	4,128,121.63		117,879.49		4,010,242.14	Income related
New Model of Intelligent Manufacturing 820-00-1705	3,801,462.09				3,801,462.09	Income related
Special project on key technologies for design, manufacture, inspection and testing of supercritical CO2 boilers	3,420,000.00		3,043,333.34		376,666.66	Income related
Development of Ultra-High Head and Large Capacity Pumped Storage Units 820-00-2001	3,027,362.30	2,800,000.00	553,398.06		5,273,964.24	Income related
Made in China 2025 Project Funding 820-00-1702	1,977,168.25		1,073.39		1,976,094.86	Income related
Research and Application of Distributed Photovoltaic and Cascade Small Hydropower Complementary Co-generation Technology 820-00-1801	1,681,592.88		991,745.50		689,847.38	Income related
863 funds of the Ministry of Science and Technology	1,000,000.00	10,608,000.00	1,024,100.00		10,583,900.00	Income related
Time-honored standard subsidy 820-00-1901	953,970.37		21,906.06		932,064.31	Income related
Special development funds for leading industries in Meihokou City		22,249,500.00			22,249,500.00	Income related
Special project on service characteristics and safety protection of supercritical hydrothermal chemical reduction hydrogen production equipment		5,838,700.00	5,164,466.67		674,233.33	Income related
Special project for the development of high-efficiency and low-nitrogen combustion flue gas recirculation technology		1,000,000.00	333,333.33		666,666.67	Income related
others	38,861,476.08	23,221,246.46	23,054,262.52		39,028,460.02	Income related
Total	265,816,002.56	78,069,385.30	79,662,704.51		264,222,683.35	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XLII) Share capital

Shareholder's name	Opening balance		Increase during the period	Decrease during the period	Closing balance	
	Investment amount	proportion (%)			Investment amount	proportion (%)
Harbin Electric Corporation	1,030,952,000.00	60.41			1,030,952,000.00	60.41
Overseas-listed shares	675,571,000.00	39.59			675,571,000.00	39.59
Total	1,706,523,000.00	100.00			1,706,523,000.00	100.00

(XLIII) Capital reserve

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
1. Capital surplus (share premium)	4,298,019,065.66			4,298,019,065.66
2. Other capital surplus	43,393,395.65		2,675,469.19	40,717,926.46
Total	4,341,412,461.31		2,675,469.19	4,338,736,992.12
Of which: State-owned exclusive capital reserve				

(XLIV) Specialized reserve

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance	notes
Production safety charges	41,743,525.66	27,893,296.53	26,109,423.48	43,527,398.71	
Total	41,743,525.66	27,893,296.53	26,109,423.48	43,527,398.71	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XLV) Surplus reserve

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserve	809,136,649.47			809,136,649.47
Total	809,136,649.47			809,136,649.47

(XLVI) Retained earnings

Items	Current period	Last period
Balance before adjustment at the end of preceding period	8,799,327,500.41	8,804,199,937.94
Add: Increase due to adjustment (or less: decrease)		
Opening balance after adjustment	8,799,327,500.41	8,804,199,937.94
Add: Net profit attributable to owners of the parent company	-4,142,448,248.42	-7,280,537.53
Less: Appropriation of statutory surplus reserve		
Appropriation of discretionary surplus reserve		
Appropriation of general risk reserve		
Dividend payable on ordinary shares	18,771,753.01	
Dividend on ordinary share converted to share capital		
Others		
add: Surplus reserve to cover losses		
Other comprehensive income carried forward to retained earnings	-177,862,593.41	2,408,100.00
Others	219,425,012.11	
Closing balance	4,679,669,917.68	8,799,327,500.41

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XLVII) Operating revenue and operating cost

1. Details of Operating revenue and Operating cost

Items	Current period		Last period	
	Revenue	Cost	Revenue	Cost
1. Main operating revenue	21,003,111,081.37	22,062,496,837.01	23,542,747,407.90	20,914,073,705.44
Main thermal power equipment	7,561,961,568.28	7,361,075,614.43	8,710,409,710.23	7,425,598,798.85
Main hydro power equipment	2,727,478,768.28	2,528,254,405.36	2,454,051,184.86	2,041,988,701.75
Engineering services for power stations	4,495,838,372.45	6,335,285,833.55	6,405,089,211.40	6,603,555,068.58
Power station auxiliary equipment and ancillary products	851,801,954.47	820,653,887.87	931,421,749.11	829,776,657.72
AC and DC motors and other	4,265,395,666.75	4,103,089,608.55	3,574,165,852.13	2,920,480,958.08
Nuclear power	1,100,634,751.14	891,234,931.59	1,467,609,700.17	1,092,673,520.46
2. Other operating revenue	222,201,591.75	140,792,384.54	217,652,300.72	142,834,883.44
Selling materials	120,763,408.12	94,633,583.88	100,204,625.66	83,658,990.23
Technical service fees	16,538,426.53		4,929,857.80	2,703,207.92
Others	84,899,757.10	46,158,800.66	112,517,817.26	56,472,685.29
Total	21,225,312,673.12	22,203,289,221.55	23,760,399,708.62	21,056,908,588.88

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XLVII) Operating revenue and operating cost (Continued)

2. Top ten contract works with highest revenue recognized in the year are as below:

Project items	Contracted value	Total Cost of the project	Progress of Completion (%)	Accumulated	Accumulated	Settlement price	Revenue	Cost recognized in current period	
				revenue recognized	cost recognized		recognized in current period		
Fixed-price contract									
1. Pakistan Jamsholo 2 × 660MW ultra-supercritical coal-fired power station project	3,440,883,379.89	3,426,882,585.03	79.76	2,744,323,753.15	2,733,157,227.10	11,166,526.05	2,354,671,119.31	919,490,277.80	927,841,784.72
2. Dubai Hassyan Clean Coal-fired Power Plant Project	15,668,376,415.28	17,238,599,859.43	92.83	14,544,353,228.46	16,001,931,462.10	-1,457,578,233.64	11,940,108,726.06	875,937,093.83	1,875,969,775.86
3. Yantai Port West Port Area Liquefied Natural Gas (LNG) Project	4,512,963,395.73	4,378,111,448.73	5.07	228,702,413.65	221,868,552.38	6,833,861.27	15,193,532.87	228,702,413.65	221,868,552.38
4. Wendeng 1#	277,488,833.34	220,236,888.24	100	237,169,943.03	208,693,784.06	28,476,158.97	237,169,943.03	195,500,853.67	169,999,571.22
5. White Crane Beach 5#	493,466,501.00	325,735,498.09	100	421,766,240.17	274,009,680.69	147,756,559.48	421,766,240.17	176,370,076.64	84,487,063.79
6. White Crane Beach 4#	493,466,501.00	325,735,498.09	100	421,766,240.17	276,997,759.99	144,768,480.18	421,766,240.17	169,416,479.05	82,104,790.13
7. Baihe Beach 3#	493,466,501.00	325,735,498.09	100	421,766,240.17	278,827,767.81	142,938,472.36	421,766,240.17	129,610,023.46	53,191,759.74
8. Yangjiang 2#	190,887,076.00	122,508,506.72	100	164,557,824.14	135,147,246.12	29,410,578.02	164,557,824.14	129,276,713.18	108,881,486.70
9. Yangjiang 1#	248,225,848.00	160,830,151.91	100	213,987,800.00	191,441,877.67	22,545,922.33	213,987,800.00	125,169,301.87	124,687,110.28
10. Yuneng Yang Huo Pan 1#	309,026,820.00	308,280,000.00	40.55	125,310,375.51	141,873,691.75	-16,563,316.24	330,680,138.00	125,310,375.51	141,873,691.75
Total	26,128,251,271.24	26,832,655,934.33		19,523,704,058.45	20,463,949,049.67	-940,244,991.22	16,521,667,803.92	3,074,783,608.66	3,790,905,586.57

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XLVIII) Interest income and interest expense

Items	Current period	Last period
(I) Interest income	344,448,901.43	239,303,784.86
1. Deposits in other banks	250,878,318.76	174,207,957.68
2. Deposit in central bank	11,174,416.57	9,226,265.72
3. Loans to other banks	32,332,499.99	42,543,333.34
4. Loans and advances paid	14,414,387.13	7,794,676.77
Including: Individual loans and advances		
Company loans and advances	1,215,566.03	1,231,001.06
Discounted notes	13,198,821.10	6,563,675.71
5. Buy in and return to and sell the financial assets	35,618,739.77	5,507,835.61
6. Bond investments		
7. Others	30,539.21	23,715.74
Including: Impaired financial asset interest income		
(II) Interest expense	8,707,374.94	9,600,470.13
1. Deposits from other banks		
2. Borrowings from central bank	1,079,587.80	832,061.35
3. Borrowings from other banks	204,166.67	
4. Deposits taking	5,819,313.76	7,660,834.71
5. Proceeds of REPO financial assets	1,604,306.71	1,104,124.38
6. Issue of bonds		
7. Others		3,449.69
(III) Net interest income	335,741,526.49	229,703,314.73

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(XLIX) Handling charges and commission income, and handling charges and commission expenses

Items	Current period	Last period
(I) Revenue from handling charges and commission		
1. Settlement and clearing fees		
2. Agency services fees		
3. Credit fees and commission		
4. Bank card fees		
5. Advisory fees		
6. Custodian and other fiduciary service fees		
7. Others		
(II) Handling charges and commission expenses	88,948.32	44,316.99
1. Handling charges	88,948.32	44,316.99
2. Commission expenses		
(III) Net handling charges and commission income	-88,948.32	-44,316.99

(L) Taxes and surcharges

Items	Current period	Last period
City maintenance and construction tax	34,456,386.23	46,753,799.32
Education surcharge	18,189,021.22	23,478,499.64
Local education surcharge	6,531,520.80	10,080,921.54
Stamp tax	32,050,091.63	17,374,899.13
Property tax	45,146,677.34	45,916,711.01
Tenure tax	26,517,035.36	25,056,160.73
Vehicle and vessel use tax	49,931.20	61,622.88
Others	-119,428.00	-1,676,063.97
Total	162,821,235.78	167,046,550.28

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LI) Selling expenses

Items	Current period	Last period
Salary cost	257,546,721.98	262,979,795.12
Quality warranty expenses	204,549,068.05	250,734,328.61
Traveling expenses	75,100,161.10	64,524,973.56
Transportation expenses	19,712,761.24	17,088,016.91
Activity fee	14,037,996.97	11,694,056.37
Overseas funds	6,105,318.72	10,176,953.46
consulting cost	10,838,911.65	13,074,113.36
Insurance fees	12,396.40	58,842.90
Business expenses	12,454,643.96	121,199.77
Office fee	2,124,093.19	1,728,291.48
Promotion expenses	59,706.78	42,616.66
Advertising fee	2,227,705.85	2,165,664.28
Others	32,873,081.27	41,470,463.18
Total	637,642,567.16	675,859,315.66

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LII) Administrative expenses

Items	Current period	Last period
Salary expenses	889,271,697.02	655,217,349.80
Party construction activities	774,329.83	828,728.19
Depreciation and amortization expenses	124,999,484.02	129,697,223.44
Maintenance expenses	109,369,274.84	99,763,775.98
Travelling expenses for conferences	25,507,438.00	29,362,023.54
Service contract fees	20,778,298.29	60,778,198.65
Office fees	23,830,284.01	23,412,304.58
Oversea fund	12,040,118.07	9,699,630.82
Material consumption	10,017,400.54	8,816,646.06
Utility charges	9,289,534.62	11,230,634.92
Heating fee	16,522,941.01	14,956,158.75
Freight expenses	7,105,946.92	7,359,861.77
Entertainment expenses	16,786,901.04	13,624,823.62
Disabled employment security fund	11,651,643.93	11,896,878.29
Agency costs	16,606,459.81	16,362,634.79
Amortization of low cost and short- lived goods	4,420,240.13	3,765,136.77
Consulting fee	9,231,899.75	4,910,732.00
Verification fee	7,004,393.45	980,714.97
Insurance fee	34,102,617.81	39,179,915.07
Litigation costs	1,823,059.81	1,270,145.35
Technology transfer fee	72,921.69	26,113.86
Board fees	426,207.67	284,360.96
Sewage charges	4,044,504.04	4,785,699.32
Others	212,742,979.81	156,498,247.11
Total	1,568,420,576.11	1,304,707,938.61

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(LIII) Research and development expenses

Items	Current period	Last period
Research and development expenses	670,530,779.51	976,707,037.96
Total	670,530,779.51	976,707,037.96

(LIV) Financial expenses

Category	Current period	Last period
Interest expense	217,051,183.83	233,562,605.22
Less: interest income	36,998,158.16	47,077,675.59
Exchange gains and losses	-182,901,643.18	-21,696,224.40
Handling fee	31,697,119.36	18,373,882.93
Others	-14,888,275.40	3,758,273.92
Total	13,960,226.45	186,920,862.08

(LV) Other income

Items	Current period	Last period
Government subsidy	199,239,987.33	477,041,547.59
Total	199,239,987.33	477,041,547.59

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LV) Other income (Continued)

Government subsidies included in current profits and losses

Items	Current amount	Previous amount	Related to assets or income
Conclusion – CAP1400 shielded motor main pump development project	6,011,460.24	174,095,395.00	related to earnings
Conclusion–AP1000 Canned Electric Pump Manufacturing Technology Project	3,797,509.92	133,296,989.01	related to earnings
Harbin Electric Group Co., Ltd. special hardship fund allocation		48,000,000.00	related to earnings
Transfer of deferred income to other income		16,656,791.26	related to earnings
Funds for innovation and development of trade in services Stable Job Subsidy	10,102,346.07	8,325,200.00	related to earnings
Research project on low-noise manufacturing of key parts of main steam turbine		7,321,815.38	related to earnings
Special funds for the development of foreign trade and economic cooperation of the central government	41,458,700.00	6,164,427.69	related to earnings
Three Gorges giant fully air-cooled unit 820–00–1104	5,625,000.00	5,703,100.00	related to earnings
The first set of innovative products in key areas of the Bureau of Finance in 2018		5,625,000.00	related to assets
AP/CAP shield cover flywheel ZX1820–15–01		5,000,000.00	related to earnings
AP/CAP thrust plate ZX1820–15–02		4,908,600.00	related to earnings
Special funds for the first (set) innovative product in key areas		4,657,760.00	related to earnings
Received the Heilongjiang Province Supporting Enterprise Technological Transformation Incentive Fund		4,000,000.00	related to earnings
Touyan team special fund	12,710,549.78	3,580,000.00	related to earnings
The special fund of Harbin Finance and Treasury Payment Center		6,347,862.85	related to earnings
VAT credits and refunds		2,955,400.00	related to earnings
Export credit insurance premium support funds	442,800.00	2,481,235.31	related to earnings
Harbin Xiangfang District Finance Bureau (Transformation of scientific and technological achievements – the first set of plump)		2,000,000.00	related to earnings

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LV) Other income (Continued)

Government subsidies included in current profits and losses (Continued)

Items	Current amount	Previous amount	Related to assets or income
Received the first (set) innovative product award in key areas of Heilongjiang Province		2,000,000.00	related to earnings
personal tax refund	495,711.02	1,732,081.61	related to earnings
Research and Application of Distributed Photovoltaic and Cascade Small Hydropower Complementary Co-generation Technology	991,745.50	1,630,594.60	related to earnings
600MW tidal current generator development 820-00-1308	117,879.49	1,580,214.67	related to earnings
Research and engineering application of core technology of key components of high temperature gas-cooled reactor evaporator	8,857,091.53	1,541,168.28	related to earnings
Received subsidy funds from the Industrial Information Technology Bureau of Xiangfang District for the research and development expenses of provincial technology-based enterprises in 2018		1,500,000.00	related to earnings
Awarded by Industrial Information Technology Bureau of Xiangfang District, Harbin City		1,500,000.00	related to earnings
Conclusion-Development of heavy metal flywheel with large inertia for AP1000 nuclear main pump motor		1,500,000.00	related to earnings
The Industrial Information Technology Bureau of Xiangfang District, Harbin City will subsidize the municipal matching funds after the research and development expenses of provincial science and technology enterprises in 2018		1,500,000.00	related to earnings
2018 Provincial Science and Technology Enterprises Subsidy Funds After R&D Expenses		1,500,000.00	related to earnings
Supporting Fund Subsidies for Jiangbei Scientific Research Base Projects	1,363,566.66	1,363,566.66	related to assets
Development of Ultra-High Head and Large Capacity Pumped Storage Units 820-00-2001	553,398.06	1,172,637.70	related to earnings

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LV) Other income (Continued)

Government subsidies included in current profits and losses (Continued)

Items	Current amount	Previous amount	Related to assets or income
Special hardship enterprise subsidy		940,000.00	related to earnings
Harbin Xiangfang District Finance Bureau Industrial and Information Industry Support Subsidy Fund		900,000.00	related to earnings
Provincial special funds for industrial transformation and upgrading		750,000.00	related to earnings
Demonstration and application of 600kw tidal current generator set 820-00-1909		728,814.44	related to earnings
Science and Technology Bureau R&D Grant		620,000.00	related to earnings
Special funds for the ten thousand people plan		550,000.00	related to earnings
2018 Science and Technology Innovation Base Award Fund (FY22.001 Heilongjiang Power Station Valve Engineering Technology Center Project)		500,000.00	related to earnings
Conclusion – AP/CAP shielded motor main pump shielding sleeve material and flywheel guard ring		500,000.00	related to earnings
Special funds for large-scale pumped storage projects	22,420,000.00		related to earnings
Simulation test of water-lubricated bearing of CAP1400 main pump canned motor	6,003,399.58		related to earnings
Vocational Skills Enhancement Subsidy	1,010,250.00		related to earnings
A new model project for intelligent remote operation and maintenance of hydropower equipment	4,300,000.00		related to earnings
Research project subsidies	8,398,109.89		related to earnings
Funding from the Bureau of Energy Transfer	4,190,000.00		related to earnings
Received the award for the first set of innovative products in key areas in 2021	3,810,000.00		related to earnings
Received the implementation of policies related to the promotion of industrial development from the Bureau of Industry and Information Technology	3,600,000.00		related to earnings
Receive funds from Industrial Information Technology Bureau, Xiangfang District, Harbin City	3,500,000.00		related to earnings

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LV) Other income (Continued)

Government subsidies included in current profits and losses (Continued)

Items	Current amount	Previous amount	Related to assets or income
Receive subsidies from Harbin Municipal Bureau of Commerce	3,036,000.00		related to earnings
2021 Post-investment subsidy for R&D	3,000,000.00		related to earnings
Receive funds from Industrial Information Technology Bureau, Xiangfang District, Harbin City	3,000,000.00		related to earnings
Granted by the Provincial Department of Industry and Information Technology (subsidy after the new model of intelligent manufacturing)	3,000,000.00		related to earnings
Comprehensive utilization of resources VAT refund 70% immediately after collection	2,737,690.24		related to earnings
Main steam turbine key parts and sets of low-noise manufacturing research State-approved scientific research project expenditure carry-over income	2,422,595.57		related to earnings
The first (set) of innovative products in key areas in 2021	2,000,000.00		related to earnings
Receive 2021 Digital (Smart) Workshop Incentive Policy Funding	2,000,000.00		related to earnings
Receive the payment center of Harbin's treasury treasury (the national green manufacturing enterprise reward fund)	2,000,000.00		related to earnings
Acquired by the Finance Bureau of Xiangfang District, Harbin (Transformation of scientific and technological achievements – the first set of Baihetan)	2,000,000.00		related to earnings
Acquired by the Finance Bureau of Xiangfang District, Harbin (digital workshop)	2,000,000.00		related to earnings
2017YFB0903704-HD-GB	1,933,746.87		related to earnings
Conclusion – Demonstration Application Project of Laser Welding Technology for Large Thin-Walled Components	1,709,168.17		related to earnings

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LV) Other income (Continued)

Government subsidies included in current profits and losses (Continued)

Items	Current amount	Previous amount	Related to assets or income
Subsidy funds for R&D expenses of enterprises in Harbin Science and Technology Bureau	1,610,000.00		related to earnings
Subsidy after R&D expenses in 2019	1,500,000.00		related to earnings
Received the scientific research subsidy award of Harbin Financial Treasury Payment Center	1,500,000.00		related to earnings
Petrochemical high-end valve research and development project	1,210,000.00		related to earnings
Industrial enterprises to accelerate the development of output value increase project incentives	1,200,000.00		related to earnings
Subsidies after receiving R&D investment from Harbin Pingfang District Industrial Information Technology Bureau	1,000,000.00		related to earnings
Subsidy after transfer of R&D expenses	630,000.00		related to earnings
Insurance compensation for innovative products	620,000.00		related to earnings
Heilongjiang Provincial Department of Science and Technology (zero balance) centrally guides local project funds	620,000.00		related to earnings
HE Group's "Thirteenth Five-Year Plan" Scientific and Technological Innovation Commendation Award	555,000.00		related to earnings
HDKY-1-2019-02-GB	538,856.16		related to earnings
Provincial Technology Transfer Demonstration Institution Fund 820-00-1902	535,182.74		related to earnings
Integration of the two	500,000.00		related to earnings
others	6,622,229.84	9,912,893.13	related to earnings
Total	199,239,987.33	477,041,547.59	Related to income

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LVI) Investment income

Sources of investment income	Current period	Last period
Long-term equity investment income accounted for by the equity method	14,009,966.57	5,826,738.34
Long-term equity investment income accounted for by cost method		
Investment income from disposal of long-term equity investment		1,422,836.28
Investment income during the holding period of held-for-trading financial assets	-5,854,413.57	
Investment income from disposal of financial assets held for trading (applicable to the new financial standards)	1,091,581.30	49,346,965.27
Interest income during the holding period of debt investment	7,160,547.95	
Interest income during the holding period of other debt investments	11,364,600.00	8,620,200.00
Gains arising from equity remeasurement at fair value when control is obtained		-186,797.98
Gains arising from remeasurement of remaining equity at fair value after loss of control		1,193,537.36
Dividend income obtained during the period of holding other equity instruments (applicable to the new standard)	14,165,745.56	10,410,343.40
Investment income from debt restructuring	2,954,592.00	
Total	44,892,619.81	76,633,822.67

(LVII) Gain on fair value changes

Items	Current period	Last period
Transactional financial assets		217,411.27
Total		217,411.27

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LVIII) Credit impairment losses

Items	Current period	Last period
Bad debt loss	-422,254,320.20	-149,688,486.44
Loans and loan impairment losses	-56,169,395.00	78,243,477.85
Total	-478,423,715.20	-71,445,008.59

(LIX) Impairment on assets

Items	Current period	Last period
Bad debt loss		
Inventory price loss	-269,180,044.75	-84,340,617.86
impairment loss of contract assets	-65,955,363.36	13,791,003.92
Impairment loss of investment property	-84,811,282.29	
Impairment loss of fixed asset	-2,754,990.28	
Impairment loss of construction materials		
Impairment loss of intangible assets		
Others		
Total	-422,701,680.68	-70,549,613.94

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LX) Proceeds from asset disposal

Items	Current period	Last period	Amount included in current non-recurring gains and losses
Disposal of fixed assets	14,255,937.53	5,871,648.66	14,255,937.53
Disposal of intangible assets	47,761,857.45	-80,802.33	47,761,857.45
Total	62,017,794.98	5,790,846.33	62,017,794.98

(LXI) Non-operating income

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	734,681.69	3,972,225.80	734,681.69
Government subsidies unrelated to the daily activities of the enterprise	15,591,086.05	5,596,779.91	15,591,086.05
Write off of non payment	5,953,889.30	14,900,219.00	5,953,889.30
Compensation for quality loss	27,970,699.85	32,485,217.18	27,970,699.85
Others	16,398,834.82	20,241,261.01	16,398,834.82
Total	66,649,191.71	77,195,702.90	66,649,191.71

1. Details of government grants:

Items	Current period	Last period
Receive financial subsidy funds and others	15,591,086.05	5,596,779.91
Total	15,591,086.05	5,596,779.91

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(LXII) Non-operating expenses

Items	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	8,207,839.25	2,381,852.46	8,207,839.25
Losses from debt restructuring			
External donation		5,531,071.68	
Contract dispute expenditure	2,317,797.97	27,487,067.52	2,317,797.97
Refund of key military engineering equipment		1,941,800.00	
Others	-34,283,409.28	2,499,147.26	-34,283,409.28
Total	-23,757,772.06	39,840,938.92	-23,757,772.06

(LXIII) Income tax

Items	Amount for this period	Amount for previous period
Current income tax calculated according to tax law and related regulations	75,606,451.78	101,470,821.11
Deferred income tax adjustment	-175,006,910.21	-40,568,029.06
Other		
Total	-99,400,458.43	60,902,792.05

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(LXIII) Income tax (Continued)

Accounting profit and income tax expense adjustment process:

Items	Amount for this period
Total profit	-4,200,266,843.02
Income tax expense at legal or applicable tax rate	-630,040,026.45
Subsidiaries apply different tax rates	24,607,039.72
Adjust the impact of income tax in previous periods	8,248,849.67
The impact of non-taxable income	-4,673,315.46
Non-deductible costs, expenses, and impact of loss	8,230,131.82
Impact of the use of deductible losses on the use of unrecognized deferred income tax assets in the prior period	-44,504,887.72
The impact of deductible temporary differences or deductible losses on deferred income tax assets that have not been recognized in the current period	538,731,749.99
Others	
Income tax expense	-99,400,458.43

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LXIV) Other comprehensive income attributable to the parent company

1. *Items of other comprehensive income and the impact of income tax and transferred to profit or loss*

Items	Amount for this period		
	Pretax amount	income tax	Net after tax
(I) Other comprehensive income not reclassified subsequently to profit or loss			
1. Changes in remeasurement on the net liability and net asset defined benefit scheme			
2. Items of other comprehensive income attributable to investees under equity method that are not reclassified to profit or loss			
3. Changes in fair value of other equity instruments investment	-19,847,328.02		-19,847,328.02
4. Fair value changes in enterprise's own credit risk			
5. others			
(II) Other comprehensive income to be reclassified subsequently to profit or loss			
1. Items of other comprehensive income attributable to investees under equity method that may be reclassified to profit or loss			
less: other comprehensive income transferred to profit and loss in the current period at the previous period			
Subtotal			
2. Profit or loss from changes in fair value of available-for-sale financial assets	673,917.75	180,675.00	493,242.75
less: other comprehensive income transferred to profit and loss in the current period at the previous period			
Subtotal	673,917.75	180,675.00	493,242.75
3. Gain or loss from fair value changes of available-for-sale financial assets			
less: other comprehensive income transferred to profit and loss in the current period at the previous period			
Subtotal			
4. The amount of financial assets reclassified into other comprehensive income			
less: other comprehensive income transferred to profit and loss in the current period at the previous period			
Subtotal			

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LXIV) Other comprehensive income attributable to the parent company (Continued)

1. *Items of other comprehensive income and the impact of income tax and transferred to profit or loss (Continued)*

Items	Amount for this period		
	Pretax amount	income tax	Net after tax
5. Gain or loss from reclassification of held-to-maturity investments as available-for-sale financial assets less: other comprehensive income transferred to profit and loss in the current period at the previous period Subtotal			
6. Other debt investment credit impairment provision less: other comprehensive income transferred to profit and loss in the current period at the previous period Subtotal			
7. Cash flow hedging reserve less: other comprehensive income transferred to profit and loss in the current period at the previous period Adjustment to the initial confirmation amount of the hedged item Subtotal	167,567,126.04	25,135,068.91	142,432,057.13
8. Currency translation reserve less: Net amount after tax included in other comprehensive income and transferred to profit or loss in the current period Subtotal	-8,010,496.90		-8,010,496.90
9. others less: other comprehensive income transferred to profit and loss in the current period at the previous period Subtotal			
(III) Total other comprehensive income	-190,788,663.39	-24,954,393.91	-165,834,269.48

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LXIV) Other comprehensive income attributable to the parent company (Continued)

1. *Items of other comprehensive income and the impact of income tax and transferred to profit or loss (Continued)*

Items	Amount for previous period		
	Pretax amount	income tax	Net after tax
(I) other comprehensive income not to be reclassified as profit or loss			
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. Changes in fair value of other equity instruments investment	-83,969,464.70		-83,969,464.70
4. Fair value changes in enterprise's own credit risk			
5. others			
(II) Other comprehensive income to be reclassified as profit or loss	112,095,403.09	18,147,147.66	93,948,255.43
1. Items of other comprehensive income attributable to investees under equity method that may be reclassified to profit or loss			
less: other comprehensive income transferred to profit and loss in the current period at the previous period			
Subtotal			
2. Changes in fair value of other debt investment	-601,742.25	-161,325.00	-440,417.25
less: other comprehensive income transferred to profit and loss in the current period at the previous period			
Subtotal	-601,742.25	-161,325.00	-440,417.25
3. Gain or loss from fair value changes of available-for-sale financial assets			
less: other comprehensive income transferred to profit and loss in the current period at the previous period			
Subtotal			

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(LXIV) Other comprehensive income attributable to the parent company (Continued)

1. *Items of other comprehensive income and the impact of income tax and transferred to profit or loss (Continued)*

Items	Amount for previous period		
	Pretax amount	income tax	Net after tax
4. The amount of financial assets reclassified into other comprehensive income			
less: other comprehensive income transferred to profit and loss in the current period at the previous period			
Subtotal			
5. Gain or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			
less: other comprehensive income transferred to profit and loss in the current period at the previous period			
Subtotal			
6. Other debt investment credit impairment provision			
less: other comprehensive income transferred to profit and loss in the current period at the previous period			
Subtotal			
7. Cash flow hedging reserve	167,567,126.04	25,135,068.91	142,432,057.13
less: other comprehensive income transferred to profit and loss in the current period at the previous period	26,703,096.35	4,005,464.45	22,697,631.90
Adjustment to the initial confirmation amount of the hedged item	18,807,545.29	2,821,131.80	15,986,413.49
Subtotal	122,056,484.40	18,308,472.66	103,748,011.74
8. Currency translation reserve	-9,439,514.62		-9,439,514.62
less: Net amount after tax included in other comprehensive income and transferred to profit or loss in the current period	-80,175.56		-80,175.56
Subtotal	-9,359,339.06		-9,359,339.06
9. others			
less: other comprehensive income transferred to profit and loss in the current period at the previous period			
Subtotal			
(III) Total other comprehensive income	28,125,938.39	18,147,147.66	9,978,790.73

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LXV) Consolidated cash flow statement

1. *Adjust the Net Profit to the Cash Flow Information of Operating Activities by Indirect Method.*

Items	Amount for this period	Amount for previous period
1. Regulate net profit as operating activity cash flow		
Net profits	-4,100,866,384.59	16,055,084.94
Add: Impairment preparation of asset	422,701,680.68	70,549,613.94
Impairment losses on credit	478,423,715.20	71,445,008.59
Depreciation of fixed assets, loss of oil and gas assets, and depreciation of productive biological assets	519,660,487.85	671,150,864.26
Amortization of use right assets		
Amortization of intangible assets	94,589,431.90	89,722,530.07
Amortization of long-term deferred expenses	3,359,491.32	8,098,327.17
Disposal of fixed assets, intangible assets and other long-term assets (revenues are marked with "-")	14,255,937.53	-5,790,846.33
Loss of scrapped fixed assets (earnings are marked with "-")	-40,467,155.43	-1,584,187.35
Loss of change in fair value (income is marked with a "-" sign)		-217,411.27
Financial expenses (revenues are marked with "-")	217,051,183.83	191,001,309.37
Loss of investment (earnings are marked with "-")	-44,892,619.81	-76,633,822.67
Deferred income tax assets decreased (increased by "-")	-199,961,246.97	-40,539,420.52
Deferred income tax liabilities increase (decrease by "-")		
Decrease of inventory (added with "-" sign)	-1,031,193,276.40	1,041,673,448.61
Reduction of operational receivables (added with "-")	-2,686,804,362.38	-1,746,074,951.60
Increase in operating payables (decrease by "-")	7,387,685,874.05	1,692,030,065.33
Others		
Net cash flow from operating activities	1,033,542,756.78	1,980,885,612.54

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(LXV) Consolidated cash flow statement (Continued)

1. *Adjust the Net Profit to the Cash Flow Information of Operating Activities by Indirect Method. (Continued)*

Items	Amount for this period	Amount for previous period
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	12,620,970,173.01	11,298,046,225.31
Less: Opening balance of cash	11,298,046,225.31	9,197,222,711.30
Plus: closing balance of cash equivalents		
Less: opening balance of cash equivalents		
Net increase in cash and cash equivalents	1,322,923,947.70	2,100,823,514.01

2. *Composition of cash and cash equivalents:*

Items	Closing balance	Opening balance
(I) Cash	12,620,970,173.01	11,298,046,225.31
Including: Cash	2,008,116.65	3,314,137.20
Bank deposits that can be used for payment at any time	2,408,006,983.77	2,168,033,080.96
Other currency funds that can be used to pay at any time		
Central bank deposits available for payment	58,404,742.06	7,358,033.46
Deposits in other banks	10,152,550,330.53	9,119,340,973.69
Loans to other banks		
(II) Cash equivalents		
Including: Bond investment due within three months		
(III) Cash and cash equivalents at the end of the period	12,620,970,173.01	11,298,046,225.31

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

VIII. NOTES TO KEY ITEMSS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(LXVI) Foreign Currency Itemss

Items	Closing balance	Exchange rate	Closing balance
Cash			405,210,352.43
Including: USD	50,422,562.37	6.3757	321,479,130.90
EUR	5,903,542.47	7.2197	42,621,805.57
HKD	98,986.41	0.8176	80,931.29
Brazilian Rial	7,355,922.96	1.1436	8,412,233.50
Indian Rupee	3,048,692.10	0.0856	260,968.04
Indonesian Rupiah	103,779,145.22	0.0004	41,511.66
Sudanese pound	4,989,150.16	0.0146	72,841.59
Dirham	4,563,590.33	1.7361	7,922,849.17
Usumu	124,619,764.28	0.0006	74,771.86
Turkish Lira	2,231,201.02	0.4822	1,075,885.13
Pakistan Rupee	641,646,754.22	0.0361	23,163,447.83
Vietnamese Dong	13,252,955.00	0.0003	3,975.89
Accounts receivable			502,526,489.33
Including: USD	77,919,462.14	6.3757	496,791,114.77
EUR	791,805.90	7.2197	5,716,601.06
Sudanese pound	1,285,856.05	0.0146	18,773.50
Long-term borrowings			363,416,589.19
Including: USD	46,808,866.35	6.3757	298,439,289.19
EUR	9,000,000.00	7.2197	64,977,300.00

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

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

(LXVII) Assets with limited ownership or use rights

Items	Closing book value	Reason
Cash	980,912,776.84	Acceptance of money received, deposit of reserve deposits of the Central Bank, etc.
Fixed assets	70,879,703.28	Note 1
Intangible assets	23,772,568.25	Note 1

Note 1: The main reason is that Harbin Electric Machinery (Zhenjiang) Co., Ltd. signed three contracts with Zhenjiang Branch of Bank of China Co., Ltd. in 2014. The maximum amount of mortgage contracts, respectively: 1) with 17 sets (sets) of machinery and equipment as collateral contract number: 150319582E14061201-3, the contract amount of 29,937,700.00 yuan the maximum amount of mortgage contract. The relevant loan was paid off on September 2, 2016. Mortgage registration was cancelled; 2) The maximum mortgage contract with the contract amount of CNY 54,967,600.00 with the house construction as the mortgage Items contract number: 150319582E14061201-2; 3) the mortgage contract with the land contract number: 150319582E14061201-1 and the maximum contract amount of CNY 21,991,830.00. Including: Mortgage contract with house construction as collateral, contract number 150319582E14061201-2 expires on June 1, 2017, and mortgage contract with contract number 150319582E14061201-1 on June 1, 2017. Expiry; because the relevant obligations have not been lifted, the mortgage contract is still effective.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IX. 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	100		Shareholder investment
Harbin Electric Machinery Co., Ltd.	Harbin	Harbin	China	Manufacturing	100		Shareholder investment
Harbin Turbine Co., Ltd.	Harbin	Harbin	China	Manufacturing	100		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	55.55	44.32	Investment
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., Ltd. (Note 2)	QingHuangdao	QingHuangdao	China	Manufacturing	34.15	65.38	Investment
Harbin Electric Power Equipment Co., Ltd.	Harbin	Harbin	China	Manufacturing	100		Investment
HE Harbin Power Plant Valve Co., Ltd. (Note 3)	Harbin	Harbin	China	Manufacturing	45		Investment
Harbin Electric Corporation Finance Co., Ltd. (Note 4)	Harbin	Harbin	China	Finance	55	35.87	Business combination under the same control
Chengdu Sanliya Technology Co., Ltd. (Note 5)	Chengdu	Chengdu	China	Manufacturing	40.7		Liquidation
Shenzhen Ha Dynamic Huihua Industry & Trade Co., Ltd. (Note 6)	Shenzhen	Shenzhen	China	Trade	60		Investment

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IX. 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	
Harbin Electric (H.E) Corporation	Harbin	Harbin	China	Other machinery and electronics wholesale	100		Business combination under the same control
Harbin electric leasing (tianjin) co. LTD	Tianjin	Tianjin	China	Leasing	80		Investment
Hadian Corporation Shanxi Environmental Protection Engineering Co., Ltd.	Yuncheng	Yuncheng	China	Water, environmental and public facilities management	51	49	Investment
Harbin Electric Group Biomass Power Generation (Wangkui) Co., Ltd.	Wangkui	Wangkui	China	Biomass power generation	100		Investment
Harbin Electric Group Biomass Power Generation (Dehui) Co., Ltd.	Dehui	Dehui	China	Biomass power generation	100		Investment

The list of directors of the company's major subsidiaries is as follows:

Wang Gui, Li Weidong, Liu Qingyong, Li Mengqi, Yu Long, Gao Weijun, Qiu Xiliang, Sun Zhongmin, Ding Xiuqiang, Guo Yu, Li Yujun, Lu Zhi Qiang, Zhao Guangbo, Xie Jingdong, Xu Fuwu, Wang Shouge, Yao Minghui, Xu Ying, Qu Weimin, Lin Kuanhai, Wang Xiaohong, Jin Changfan, Wang Xiao-hui, Zhang Jie, Wang Shi-min, Wang Xiao-wen, Liu Yu-qiang, Zhang Li-wei, Hou Shan-gao, Li Chang-bao, Liu Bin, Wang Qian-zhuang, Qu Ai-min, Zhong Weibin, Wang Limin, Li Yongxing, Xue Wei, etc.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IX. 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 99.87%.
- (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%, 99.53% of the company's merger shares.
- (3) The shareholding structure of Harbin Power Plant Valve Co., Ltd. of HE Group is that the company holds 45% of the shares and enjoys 45% of the voting rights. Because the company sends directors to account for more than half of its board members, it forms control over it.
- (4) 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 90.87% 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:

- (5) 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.
- (6) 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 OF YEAR 2021

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

IX. 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	Note
HE Harbin Power Plant Valve Co., Ltd.	55.00	10,604,306.30	1,995,357.64	264,555,166.90	
Harbin Electric Corporation Finance Company Limited	9.00	12,549,176.56	5,874,320.21	204,068,632.29	

3. Major non-wholly-owned subsidiary's major financial information

Items	Closing balance/Amount for this period	
	HE Harbin Power Plant Valve Co., Ltd.	Harbin Electric Corporation Finance Company Limited
Current asset	1,077,880,981.79	13,919,562,983.29
Non-current asset	96,041,380.43	2,356,106,272.39
Total asset	1,173,922,362.22	16,275,669,255.68
Current liabilities	684,019,184.73	14,007,860,606.24
Non-current liabilities	8,893,783.12	379,401.75
Total liabilities	692,912,967.85	14,008,240,007.99
Operating income	701,777,898.52	416,113,974.80
Net profit	19,280,556.90	139,435,295.16
Total comprehensive income	19,280,556.90	139,977,320.16
Cash flow from operating activities	2,871,331.66	630,316,647.00

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IX. EQUITY IN OTHER ENTITIES (CONTINUED)

(I) Equity in subsidiaries (Continued)

3. Major non-wholly-owned subsidiary's major financial information (Continued)

Items	Opening balance/Amount for previous period	
	HE Harbin Power Plant Valve Co., Ltd.	Harbin Electric Corporation Finance Company Limited
Current asset	1,158,498,785.70	12,616,806,538.62
Non-current asset	83,995,277.99	2,916,623,773.18
Total asset	1,242,494,063.69	15,533,430,311.80
Current liabilities	626,047,218.02	13,340,708,159.76
Non-current liabilities	151,239,756.68	
Total liabilities	777,286,974.70	13,340,708,159.76
Operating income	560,748,943.03	328,453,134.50
Net profit	8,798,580.24	197,489,542.50
Total comprehensive income	8,798,580.24	197,005,567.50
Cash flow from operating activities	55,123,009.94	3,350,017,235.26

(II) Equity in joint venture arrangements or associates

1. Important joint ventures or 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
Ha Electric General Gas Turbine (Qinhuangdao) Co., Ltd.	Qinhuangdao	Qinhuangdao	manufacturing	50		Equity method

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IX. EQUITY IN OTHER ENTITIES (CONTINUED)

(III) Major financial information of important joint ventures or associates

Items	Closing balance/Amount for this period	
	GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd.	Ha Electric General Gas Turbine (Qinhuangdao) Co., Ltd.
Current assets	396,639,408.11	231,173,772.00
Non-current assets	93,747,805.95	16,693,081.00
Total assets	490,387,214.06	247,866,853.00
Current liabilities	93,041,277.62	97,365,183.00
Non-current liabilities		5,639,246.00
Total liabilities	93,041,277.62	103,004,428.00
Interest of minority shareholders		
Attributable to the equity of the parent company	234,434,102.50	72,431,212.00
Share of net assets by shareholding	162,911,833.94	72,431,212.00
Adjustment Items		
Book value of equity investment in joint ventures	162,911,833.94	72,431,212.00
The fair value of equity investment in joint ventures with open bids		
Operating income	318,049,243.66	540,223.00
Net profits	54,442,501.27	-17,195,795.00
Discontinued operating net profit		
Other comprehensive income		
Total comprehensive income	54,442,501.27	-17,195,795.00
Dividends from joint ventures received during the current year		

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IX. EQUITY IN OTHER ENTITIES (CONTINUED)

(III) Major financial information of important joint ventures or associates (Continued)

Items	Opening balance/Amount for previous period	
	GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd.	Ha Electric General Gas Turbine (Qinhuangdao) Co., Ltd.
Current assets	313,047,612.29	93,963,750.39
Non-current assets	104,483,836.79	4,771,043.27
Total assets	417,531,449.08	98,734,793.66
Current liabilities	74,738,099.03	33,676,574.03
Non-current liabilities		
Total liabilities	74,738,099.03	33,676,574.03
Interest of minority shareholders		
Attributable to the equity of the parent company	202,248,076.53	32,529,109.81
Share of net assets by shareholding	140,545,273.52	32,529,109.82
Adjustment Items		
Book value of equity investment in joint ventures	140,545,273.52	32,529,109.82
The fair value of equity investment in joint ventures with open bids		
Operating income	270,105,833.68	170,207.55
Net profits	34,004,949.15	-18,448,455.13
Discontinued operating net profit		
Other comprehensive income		
Total comprehensive income	34,004,949.15	-18,448,455.13
Dividends from joint ventures received during the current year	10,967,354.45	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

IX. EQUITY IN OTHER ENTITIES (CONTINUED)

(IV) Summary financial information of unimportant joint ventures and associates

Items	Closing balance/ Amount for this period	Opening balance/ Amount for previous period
Total investment book value	145,319,017.64	221,595,090.77
Total amount basis on the Proportion of share hold		
Net profit	241,303.97	1,429,906.24
Other comprehensive income		
Total comprehensive income	241,303.97	1,429,906.24

X. RELATED RISKS OF FINANCIAL INSTRUMENTS

The company faces various financial risks during 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 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 OF YEAR 2021

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

X. 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 instruments fluctuates due to changes in market prices, including foreign exchange risk, interest rate risk and other price risks.

1. Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in market interest rates. The interest rate risk faced by the company mainly comes from short-term bank borrowings. The bank borrowed CNY 15,600,000 which was calculated by the company at the same national standard interest rate for the same period or a certain percentage of interest rate. Under the assumption that other variables are unchanged, when the rate of interest changes reasonably, it will not have a significant impact on the company's total profit and shareholders' equity.

2. Foreign exchange risk

Foreign exchange risk refers to the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in foreign exchange rates. The company's exposure to foreign exchange risk is mainly related to US Dollars, Euros, Hong Kong Dollars, and British Pounds, with the exception of Harbin Electric International Engineering Co., Ltd., a subsidiary of the Company, which purchases and sells US Dollars, Euros, Hong Kong Dollars, British Pounds, and other major business activities

(III) Liquidity risk

Liquidity risk refers to the risk of shortage of funds when an enterprise fulfills its obligations to settle cash or other financial assets. The company's policy is to ensure that it has sufficient cash to repay the debts due. Liquidity risk is centrally controlled by the company's financial department. The financial department ensures that the company has sufficient funds to repay the debt under all reasonably predicted circumstances by monitoring the cash balance, the securities that can be realised at any time, and rolling forecasts of the cash flow for the next 12 months.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

X. RELATED RISKS OF FINANCIAL INSTRUMENTS (CONTINUED)

(III) Liquidity risk (Continued)

The financial assets and financial liabilities with maturity within one year held by the company are analyzed as follows according to the undiscounted remaining contractual obligations:

Items	Within 1 year
Financial assets and liability :	
Monetary funds	13,601,882,949.85
Note receivables	2,673,559,748.96
Account receivables	7,247,643,005.32
Other receivables	1,320,694,485.73
Redemptory Monetary Capital for Sale	1,600,000,000.00
Short-term borrowings	5,223,060,625.25
Note payables	7,257,666,848.12
Account payables	13,875,963,319.42
Wages and salaries	527,038,717.74
Other payables	544,545,445.84
Non-current liabilities due within one year	1,188,794,302.00
Other non-current liabilities	463,280.00

XI FAIR VALUE DISCLOSURE

(I) Financial instruments measured at fair value

The company listed the book value of financial asset instruments measured at fair value on December 31, 2019 at three levels of fair value. When fair value is classified into three levels as a whole, it is based on the lowest level among the three levels to which each important input value used in fair value measurement belongs. The three levels are defined as follows:

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 2 input values include: 1) Quoted prices for similar assets or liabilities in active markets 2) Quoted prices for identical or similar assets or liabilities in markets that are not active 3) inputs other than quoted prices that are observable for the assets or liabilities, for example: interest rate and yield curves observable at commonly quoted intervals, implied volatilities, credit spreads. 4) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

The third level inputs are unobservable inputs to related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XI FAIR VALUE DISCLOSURE (CONTINUED)

(II) Fair value measurement at the end of period

1. Continuing fair value measurement

Items	Fair value at the end of period			Total
	Level 1	Level 2	Level 3	
Subtotal of Financial assets at fair value through profit and loss				
Debt instrument investment				
Equity instrument investment				
derivative financial assets				
others				
derivative financial assets				
Transactional financial assets			1,586,755.20	1,586,755.20
Other debt investment				
Other equity instrument investment			253,742,400.98	253,742,400.98
Other non current financial assets				
Total assets			255,329,156.18	255,329,156.18

XII RELATED PARTY AND TRANSACTION

(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	200,000.00	60.41	60.41

- (II) For the details of the company's subsidiaries and associates or joint ventures, please refer to Note Interests in Subsidiaries of IX(I) and Interests in joint arrangements or joint ventures of IX(III).

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XII RELATED PARTY AND TRANSACTION (CONTINUED)

(III) Information of other related parties

Name	Relationship
Harbin Electric Industrial Development Corporation	Subsidiary controlled by the same parent company
Harbin Haguo 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 Corporation ACHENG Relay limited liability company	Subsidiary controlled by the same parent company
Jiamusi Motor Factory Co., Ltd	Subsidiary controlled by the same parent company
Harbin Electric Group Jiamusi Motor Co., Ltd.	
Harbin Power Group biomass power generation (Fuyuan) Co., Ltd	Subsidiary controlled by the same parent company
Harbin Electric Group International Trade Co., Ltd.	Subsidiary controlled by the same parent company
Harbin Enterprise Management Service Co., Ltd. of Harbin Electric Group	Subsidiary controlled by the same parent company
Harbin Electric Group Marine Intelligent Equipment Co., Ltd.	Subsidiary controlled by the same parent company

(IV) 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. For subsidiaries that have a control relationship and have been included in the scope of the company's consolidated financial statements, their mutual transactions and parent-subsidiary transactions have been offset.

2. Continuing Connected Transaction

The company renewed the "Management entrustment agreement" on July 23, 2019 and the "Continuing Connected Transaction – Financial Services Framework Agreement" and the "Continuing Connected Transaction – Product and Services Framework Agreement" on December 24, 2019. 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 agreements respective from March 23, 2019 to March 22, 2022, December 31, 2019 to December 30, 2022, January 1, 2020 to December 31, 2022.

The company issued "Continuing Connected Transaction – EPC Framework Agreement" on 14 February, 2020. And the company signed the "EPC Framework Agreement" with Harbin Electric Group Co., Ltd. The validity period of the agreement is from 9 April, 2020 to 31 December, 2022.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XII RELATED PARTY AND TRANSACTION (CONTINUED)

(IV) Transaction information for related party (Continued)

2. Continuing Connected Transaction (Continued)

The company issued "Continuing Connected Transaction – Technology Development Framework Agreement" on 24 April, 2020. And the company signed the "Technology Development Framework Agreement" with Harbin Electric Power Generation Equipment National Engineering Research Center Co., Ltd. The validity period of the agreement is from 27 April, 2020 to 31 February, 2022.

(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	4,993,491.26	
– Associates		
Purchase		
– Company under the same control	3,584,658.33	1,509,679.26
– Associates		
Service revenue		
– Company under the same control		371,037.34
Service expense		
– Company under the same control	36,133,683.53	57,661,754.75

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	4,917,828.22	6,220,663.37
Company under the same control	895,052.34	1,440,425.77
Associates		
Total	5,812,880.56	7,661,089.14

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XII RELATED PARTY AND TRANSACTION (CONTINUED)

(IV) Transaction information for related party (Continued)

2. Continuing Connected Transaction (Continued)

(3) Entrusted loan interest income

Related party	Amount for this period	Amount for previous period
Holding company Company under the same control	5,519,832.53	5,647,353.40
Total	5,519,832.53	5,647,353.40

The above transactions (2) to (4) 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.

(4) 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 (5) is a transaction under the Continuing Connected Transactions – Entrusted Management Contracts and is a continuing connected transaction under Chapter 14A of the Listing Rules. The "Entrusted Management Contract" renewed on July 23, 2019 is a continuing connected transaction waived under Rule 14A.33 of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XII RELATED PARTY AND TRANSACTION (CONTINUED)

(IV) Transaction information for related party (Continued)

2. Continuing Connected Transaction (Continued)

(5) Directors, Supervisors and Senior Management Compensation

The remuneration of each director, supervisor and senior management staff in 2020 is as follows:

Name	Wages and other benefits	Retirement benefit plan contributions	Total
I. Director			
(I) executive director			
Mr.Cao zhian			
Mr.Si zefu			
Mr. Sun zhiyong	538,900.00	52,571.52	591,471.52
Mr. Wu Weizhang	598,800.00	29,491.20	628,291.20
Mr. Zhang Yingjian	531,400.00	29,491.20	560,891.20
Executive Director Subtotal	1,669,100.00	111,553.92	1,780,653.92
(II) Non-Executive Director			
None			
(III) Independent Non-executive Director			
Mr. He Yu	55,000.00		55,000.00
Mr. Hu Jianmin	80,000.00		80,000.00
Mr.Chen Guoqing			
Mr.Tang Zhihong	55,000.00		55,000.00
Mr. Zhu Hongjie	25,000.00		25,000.00
Mr. Yu Wenxing	25,000.00		25,000.00
Mr. Tian Min	25,000.00		25,000.00
Subtotal of independent non-executive directors	265,000.00		265,000.00

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XII. RELATED PARTY AND TRANSACTION (CONTINUED)

(IV) Transaction information for related party (Continued)

2. Continuing Connected Transaction (Continued)

(5) Directors, Supervisors and Senior Management Compensation (Continued)

Name	Wages and other benefits	Retirement benefit plan contributions	Total
II. Supervisors			
Mr. Qu Zhe	818,323.00	29,491.20	847,814.20
Mr. Liu Weimin	625,166.00	29,491.20	654,657.20
Mr. Zhang Jun	767,678.00	29,491.20	797,169.20
Mr. Yang Yulong	506,640.00	29,491.20	536,131.20
Mr. Zhao Xin	879,040.00	29,491.20	908,531.20
Mr. Feng Yongqiang	–	–	–
Mr. Chen Guang	318,342.00	29,491.20	347,833.20
Mr. Zhu Pengtao	469,000.00	29,491.20	498,491.20
Mr. Zhang Wenming	528,670.00	29,491.20	558,161.20
Mr. Zhang Junquan	383,694.00	29,491.20	413,185.20
Subtotals of supervisors	5,296,553.00	265,420.80	5,561,973.80
III. Senior management			
Mr. Liu Zhiqian	527,600.00	29,491.20	557,091.20
Mr. Lv Zhiqiang	530,800.00	29,491.20	560,291.20
Mr. Shen Tong	343,780.00	29,491.20	373,271.20
Mr. Guo Yu	466,300.00	29,491.20	495,791.20
Mr. Qiu Xiliang	629,307.00	29,491.20	658,798.20
Mr. Wang Gui	1,070,508.00	29,491.20	1,099,999.20
Mr. Ai Lisong (Company Secretary)	606,134.29	29,491.20	635,625.49
Subtotals of senior managers	4,174,429.29	206,438.40	4,380,867.69
Total	11,405,082.29	583,413.12	11,988,495.41

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XII. RELATED PARTY AND TRANSACTION (CONTINUED)

(IV) Transaction information for related party (Continued)

2. Continuing Connected Transaction (Continued)

(5) Directors, Supervisors and Senior Management Compensation (Continued)

Among the five highest paid including, 1 (year 2020: 0) was also a senior executive of the company and their remuneration was disclosed as above. The total remuneration of the remaining 4 (year 2020: 5) persons is as follows:

S/N	Position	Wages and other benefits	Retirement benefit plan contributions	Total
The second	Deputy Secretary of the Party Committee, Vice Chairman and General Manager of Harbin Electric Machinery Factory Co., Ltd.	1,012,300.00	29,491.20	1,041,791.20
The third	Deputy Secretary of the Party Committee, Vice Chairman and General Manager of Harbin Boiler Factory Co., Ltd.	894,800.00	29,491.20	924,291.20
The fourth	Deputy Secretary of the Party Committee and Chairman of the Labor Union of Harbin Electric Machinery Co., Ltd.	848,700.00	29,491.20	878,191.20
The fifth	Deputy General Manager of Harbin Electric Machinery Factory Co., Ltd.	848,600.00	29,491.20	878,091.20
Total		3,604,400.00	117,964.80	3,722,364.80

The above transaction (6) is a continuing connected transaction waived under Rule 14A.33 of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XII. RELATED PARTY AND TRANSACTION (CONTINUED)

(IV) Transaction information for related party (Continued)

2. Continuing Connected Transaction (Continued)

(6) EPC service transactions

Related party	Amount for this period	Amount for previous period
Company under the same control	55,279,654.17	232,267,363.28
Total	55,279,654.17	232,267,363.28

The above transactions (6) are transactions under the "Continuing Connected Transactions - EPC Framework Agreement" and are continuing connected transactions under the requirements of Chapter 14A of the Listing Rules.

(7) Technology development service transactions

Related party	Amount for this period	Amount for previous period
Harbin Electric Power Generation Equipment National Engineering Research Center Co., Ltd.	78,887,131.08	50,566,981.22
Total	78,887,131.08	50,566,981.22

The above transactions (7) are transactions under the "Continuing Connected Transactions – Technology Development Framework Agreement" and are continuing connected transactions under the requirements of Chapter 14A of the Listing Rules.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XII. RELATED PARTY AND TRANSACTION (CONTINUED)

(IV) Transaction information for related party (Continued)

3. Accounts receivable and payable for related party

(1) Accounts receivable

Items	Related party	Closing balance		Opening balance	
		Carrying Amount	Bad debt allowance	Carrying Amount	Bad debt allowance
Accounts receivable					
	Jiamusi Electric Co., Ltd.	639,901.10		161,970.20	
	Harbin Sanlian Business Service Co., Ltd.	9,691.84			
	Harbin Hago Industrial Development Co., Ltd.	37,204.16			
	Harbin Harbin Electric Industrial Development Co., Ltd.	43,456.96			
Prepayments					
	Jiamusi Electric Co., Ltd.	395,577.21			
Other receivables					
	Harbin Electric Group Co., Ltd.			162,095,125.59	
	Harbin Harbin Electric Industrial Development Co., Ltd.	50,254.15			
	Harbin Sanlian Business Service Co., Ltd.	1,100,000.00		4,870,000.00	
	Harbin Hago Industrial Development Co., Ltd.	116,799.71		29,009,103.46	
Other current assets					
	Harbin Hago Industrial Development Co., Ltd.	150,000,000.00			
Contract assets					
	HE Group Biomass Power Generation (Fuyuan) Co., Ltd.	6,022,976.89			

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XII. RELATED PARTY AND TRANSACTION (CONTINUED)

(IV) Transaction information for related party (Continued)

3. Accounts receivable and payable for related party (Continued)

(2) Account payable Items

Items	Related party	Closing balance	Opening balance
Deposit taking	Harbin Electric Group Co., Ltd.	278,132,618.16	382,259,942.58
	Harbin Harbin Electric Industrial Development Co., Ltd.	6,248,248.79	20,644,732.48
	Harbin Haguo Industrial Development Co., Ltd.	5,006,805.62	13,064,273.50
	Jiamusi Electric Machinery Factory Co., Ltd.	16,102,264.70	12,578,901.95
	Harbin Insulation Material Factory	2,545,107.48	3,712,984.41
	Harbin Haqi Industrial Development Corporation	3,510,051.90	1,588,649.46
	Harbin Electric Group Jiamusi Motor Co., Ltd.		80,000.22
	Harbin Sanlian Business Service Co., Ltd.	700,541.63	3,142,935.62
	Harbin Harbin Electric Metal Components Co., Ltd.		373,702.77
	Harbin Harbin Electric Property Management Co., Ltd.	5,575,703.21	4,578,527.16
	Harbin Haqi Industry Comprehensive Service Management Co., Ltd.	2,567,449.27	2,669,587.95
	Harbin Electric Machinery Factory Kindergarten	14,020.10	350,730.24
	Harbin Haguo Power Station Spare Parts Co., Ltd.	1,107,271.36	1,192,330.36
	Kindergarten of Harbin Haguo Industrial Development Co., Ltd.	1,081,880.56	660,977.43
	Harbin Electric Group Marine Intelligent Equipment Co., Ltd.	41,505,480.64	
	HE Group Harbin Enterprise Management Service Co., Ltd.	231,315.77	
	Harbin Harbin Electric Materials Distribution Corporation	76.68	76.38
	HE Group Biomass Power Generation (Fuyuan) Co., Ltd.	1,581,988.28	21,077,194.20

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XII. RELATED PARTY AND TRANSACTION (CONTINUED)

(IV) Transaction information for related party (Continued)

3. Accounts receivable and payable for related party (Continued)

(2) Account payable Items (Continued)

Items	Related party	Closing balance	Opening balance
Account payables	Harbin Harbin Electric Metal Components Co., Ltd.		6,179,175.06
	Harbin Harbin Electric Materials Distribution Corporation		3,401,052.16
	Harbin Harbin Electric Property Management Co., Ltd.	301,444.89	311,440.85
	Harbin Harbin Electric Industrial Development Co., Ltd.	4,110,471.06	5,158.50
	Harbin Haguo Pengbo Economic and Trade Co., Ltd.		698,754.56
	Harbin Electric Group Jiamusi Motor Co., Ltd.	94,339.62	715,365.75
	Jiamusi Electric Co., Ltd.	1,248,565.03	
	Harbin Haguo Industrial Development Co., Ltd.	52,000.00	
Other Payables	Harbin Electric Group Co., Ltd.	7,473,504.60	478,000.00
	Harbin Haqi Industrial Development Corporation		3,721,598.00
	HE Group Biomass Power Generation (Fuyuan) Co., Ltd.	1,700,000.00	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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XIII CONTINGENCIES

(I) Contingent liabilities

1. Contingent liabilities formed by providing debt guarantee for other companies

As of December 31, 2021, the companies provided loan guarantee are as follows :

No.	Guarantee company	Guaranteed			Category	Anti-guarantee method	Amount	Increasing in this year	Situation of Guaranteed	Overdue situation	Sued situation
		Name	Nature	Method							
	Total (for within the group)					2,253,362,702.68	435,000,000.00				
1	Harbin Electric Machinery Factory Co., Ltd.	Harbin Steam Turbine Plant Co., Ltd.	State-controlled	joint responsibility guarantee	Performance guarantee	No counter guarantee	480,000,000.00	150,000,000.00	Normal operation	None	None
2	Harbin Electric Machinery Factory Co., Ltd.	Harbin Electric Machinery Factory (Zhenjiang) Co., Ltd.	State-controlled	joint responsibility guarantee	Performance guarantee	No counter guarantee	270,000,000.00	270,000,000.00	Normal operation	None	None
3	Harbin Electric Machinery Factory Co., Ltd.	Harbin National Hydropower Equipment Engineering Technology Research Center Co., Ltd.	State-controlled	joint responsibility guarantee	Performance guarantee	No counter guarantee	15,000,000.00	15,000,000.00	Normal operation	None	None
4	Harbin Steam Turbine Plant Co., Ltd.	Harbin Boiler Factory Co., Ltd.	State-controlled	joint responsibility guarantee	Performance guarantee	No counter guarantee	1,490,000.00		Normal operation	None	None
5	Harbin Boiler Factory Co., Ltd.	HE Group Shanxi Environmental Protection Engineering Co., Ltd.	State-controlled	joint responsibility guarantee	Loan guarantee	No counter guarantee	26,493,810.00		Normal operation	None	None
6	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-controlled	joint responsibility guarantee	Performance guarantee	No counter guarantee	162,954,522.43		Normal operation	None	None
7	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-controlled	joint responsibility guarantee	other guarantees	No counter guarantee	19,554,542.72		Normal operation	None	None
8	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-controlled	joint responsibility guarantee	other guarantees	No counter guarantee	10,563,437.12		Normal operation	None	None
9	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-controlled	joint responsibility guarantee	Performance guarantee	No counter guarantee	524,827,268.09		Normal operation	None	None
10	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-controlled	joint responsibility guarantee	Performance guarantee	No counter guarantee	9,532,141.01		Normal operation	None	None
11	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-controlled	joint responsibility guarantee	Performance guarantee	No counter guarantee	7,088,311.04		Normal operation	None	None
12	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-controlled	joint responsibility guarantee	other guarantees	No counter guarantee	128,267,217.28		Normal operation	None	None
13	Harbin Electric Co., Ltd.	Harbin Electric International Engineering Co., Ltd.	State-controlled	joint responsibility guarantee	loan guarantee	No counter guarantee	569,991,453.00		Normal operation	None	None
14	Harbin Electric Co., Ltd.	HE Group Shanxi Environmental Protection Engineering Co., Ltd.	State-controlled	joint responsibility guarantee	Loan guarantee	No counter guarantee	27,580,000.00		Normal operation	None	None

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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XIII. CONTINGENCIES (CONTINUED)

(I) Contingent liabilities (Continued)

2. Contracts that have been signed but no commitment to purchase or build assets

As of December 31, 2021, the company has signed contracts but has not yet incurred large contract expenditures totaling 31,396,422.65 yuan for the purchase and construction of assets. The details are as follows:

Name	Contract amount not yet paid	Estimated investment period
Harbin Electric Co., Ltd. (Headquarters)	13,139,319.96	2022
Harbin Steam Turbine Factory Co., Ltd.	18,257,102.69	2022
Total	31,396,422.65	

(II) Contingent asset

The company has no contingent assets that need to be stated at the end of year.

XIV EVENTS AFTER THE BALANCE SHEET DATA

(I) Significant non-adjusting events

After the 15nd meeting of the 9th Board of Directors reviewed and approved the 2021 profit distribution plan, the board of directors does not recommend to pay the company's final dividend of 2021.

(II) Other statement of events after the balance sheet date

The company has no other event that need to be stated at the end of year.

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XV 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 OF YEAR 2021

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

XV. 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
On December 31, 2021							
Reportable segment assets	37,340,257,437.26	7,474,624,147.77	6,636,918,288.58	2,384,294,155.33	4,912,594,713.21	13,400,741,951.48	72,149,430,693.63
Including: increase in amount of construction in progress in the current period	131,873,669.09	7,916,449.19	0.00	15,503,065.53	36,806,339.78	671,951,628.16	864,051,151.75
Purchased fixed assets and intangible assets	196,122,186.28	57,854,959.52	5,384,179.53	24,886,159.68	2,432,186.19	68,402,023.55	355,081,694.75
Reportable segment liabilities	34,664,334,019.49	4,617,054,964.48	8,349,149,924.87	1,908,665,746.92	3,366,086,527.27	10,409,570,968.41	63,314,862,151.44
In 2021							
Segment revenue							
Income from external customers	7,561,961,568.28	2,727,478,768.28	4,495,838,372.45	851,801,954.47	1,100,634,751.14	4,487,597,258.50	21,225,312,673.12
Income between segment	5,407,895,755.34					22,250,055.24	5,430,145,810.58
Reportable segment profits	12,969,857,323.62	2,727,478,768.28	4,495,838,372.45	851,801,954.47	1,100,634,751.14	4,509,847,313.74	26,655,458,483.70
Reportable segment gross profit	308,271,661.32	176,321,807.26	-1,839,447,461.10	31,148,066.60	209,399,819.55	265,778,156.64	-848,527,949.73

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XV. 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
On December 31, 2020							
Reportable segment assets	34,113,369,738.82	6,720,545,053.66	8,017,840,757.43	2,333,693,744.35	5,635,409,069.49	10,821,647,967.39	67,642,506,331.14
Including: increase in amount of construction in progress in the current period	85,563,049.91	65,895,154.40		6,683,130.57	29,990,804.45	46,354,608.96	234,486,748.29
Purchased fixed assets and intangible assets	24,693,267.22	3,514,056.76	6,412,214.87	2,427,455.63	2,946,560.55	58,325,785.76	98,319,340.79
Reportable segment liabilities	30,029,661,562.54	3,978,405,220.96	7,724,304,472.24	1,652,492,888.77	3,812,446,254.89	7,461,914,481.08	54,659,224,880.48
In 2020							
Segment revenue							
Income from external customer	8,710,409,710.23	2,454,051,184.86	6,405,089,211.40	931,421,749.11	1,467,609,700.17	3,791,818,152.85	23,760,399,708.62
Income between segment	5,545,608,315.63					23,723,518.72	5,569,331,834.35
Reportable segment revenue	14,256,018,025.86	2,454,051,184.86	6,405,089,211.40	931,421,749.11	1,467,609,700.17	3,815,541,671.57	29,329,731,542.97
Reportable segment gross profit	1,289,146,170.40	412,062,483.11	-198,465,857.18	101,645,091.39	374,936,179.71	744,359,880.79	2,723,683,948.22

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XV. 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	72,149,430,693.63	67,642,506,331.14
Offset relevant contacts between divisions	-27,046,118,311.31	-24,085,995,845.81
Reportable segment net assets	45,103,312,382.32	43,556,510,485.33
Deferred tax assets	738,010,696.54	538,049,449.57
Other non-current assets		
Financial assets at fair value through profit or loss	1,586,755.20	201,804,166.47
Restricted and pledged bank loans		
Bank deposit	10,152,550,330.53	9,119,340,973.69
Central bank deposit	637,921,395.25	701,491,386.38
Cash and cash equivalents	58,408,809.78	7,358,706.92
Unallocated headquarters and company assets	3,918,402,851.05	3,836,701,317.47
Total assets	60,610,193,220.67	57,961,256,485.83
Liability		
Reportable segment liabilities	63,314,862,151.44	54,659,224,880.48
Offset relevant contacts between divisions	-15,691,761,499.36	-13,926,199,847.85
Net reportable segment liabilities	47,623,100,652.08	40,733,025,032.63
Taxes payable	354,342,491.05	450,081,285.12
Deferred income tax liabilities		
Unallocated headquarters and corporate liabilities	438,064,139.96	578,099,653.17
Total liabilities	48,415,507,283.09	41,761,205,970.92

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XV. 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	21,225,312,673.12	23,760,399,708.62
Inter-segment revenue	5,430,145,810.58	5,569,331,834.35
Reportable segment revenue	26,655,458,483.70	29,329,731,542.97
Reportable segment gross profit	-848,527,949.73	2,723,683,948.22
Offset segment losses	129,448,598.70	20,192,828.48
Reportable segment gross profit from customers outside the group	-977,976,548.43	2,703,491,119.74
Long-term equity investment income accounted for by the equity method	14,009,966.57	5,826,738.34
Interest income	381,447,059.59	286,381,460.45
Chinese government grant	214,831,073.38	482,638,327.50
Financial assets at fair value through profit or loss for the current period		217,411.27
Financial liabilities measured at fair value and whose changes are charged to profit or loss for the current period – cash flow hedges		
Interest expenses	225,758,558.77	243,163,075.35
Impairment losses for long-term assets such as fixed assets and intangible assets		
Unallocated other income and net income	143,959,096.12	148,202,548.44
Unallocated headquarters and corporate expenses	3,750,778,931.48	3,306,636,653.40
Total profit	-4,200,266,843.02	76,957,876.99

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XV. OTHER IMPORTANT EVENTS (CONTINUED)

(I) Segment information (Continued)

2. Report Division Financial Information (Continued)

(3) Regional information

Items	Revenue from external customers	
	2021	2020
1. Domestic (China))	17,493,341,565.23	17,604,151,922.66
2. Overseas :		
– Pakistan Islamic Community	2,115,008,987.34	2,591,760,519.00
– The United Arab Emirates	777,868,431.72	2,395,497,262.37
– Republic of Ecuador	113,928,657.84	296,682,438.31
– Republic of Iraq	449,639,039.95	682,407,954.44
– Other countries	275,525,991.04	189,899,611.84
Overseas subtotals	3,731,971,107.89	6,156,247,785.96
Total	21,225,312,673.12	23,760,399,708.62

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES

(I) Accounts receivable

Type	Closing balance				Opening balance			
	Carrying Amount		Bad debt provision		Carrying Amount		Bad debt provision	
	Amount	Rate (%)	Amount	Provision rate (%)	Amount	Rate (%)	Amount	Provision rate (%)
Accounts receivable with provision for bad debts based on the combination of credit risk characteristics	2,992,115,254.94	99.86	804,999,820.73	26.90	2,385,151,084.53	99.82	447,641,199.18	18.77
Accounts receivable with single item provision for bad debts	4,322,000.00	0.14			4,322,000.00	0.18		
Total	2,996,437,254.94		804,999,820.73	26.87	2,389,473,084.53		447,641,199.18	18.73

1. *Accounts receivable accruing bad debt provision in credit risk characteristic portfolio*

(1) *Accounts receivables accruing bad debt provision by applying aging analysis :*

Age	Closing balance			Opening balance		
	Carrying Amount	Bad debt		Carrying Amount	Bad debt	
	Amount	proportion (%)	provision	Amount	proportion (%)	provision
Within 1 year	1,362,437,072.82	45.53	68,121,853.70	1,643,173,091.80	68.89	82,158,654.59
1-2 years	885,903,327.07	29.61	221,475,831.77	305,273,111.74	12.80	76,318,277.94
2-3 years	338,538,579.46	11.31	169,269,289.73	257,715,857.03	10.81	128,857,928.52
3-4 years	246,104,991.63	8.23	196,883,993.30	59,432,958.66	2.49	47,546,366.93
4-5 years	49,412,158.66	1.65	39,529,726.93	33,980,470.52	1.42	27,184,376.42
Over 5 years	109,719,125.30	3.67	109,719,125.30	85,575,594.78	3.59	85,575,594.78
Total	2,992,115,254.94		804,999,820.73	2,385,151,084.53		447,641,199.18

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(I) Accounts receivable (Continued)

2. Current provision, reversal or recovery of bad debts

Debtor	Reversal or recovery Amount	Accrued bad debt allowance amount	Reversal or recovery reason
Datang International Power Generation Co., Ltd. Beijing Gaojing Thermal Power Plant	8,000,000.00	8,000,000.00	Asset value rebounded
Huaneng Lingang (Tianjin) Gas Thermal Power Co., Ltd.	205,185.72	208,575.72	Asset value rebounded
Zhejiang Datang International Jiangshan New Town Thermal Power Co., Ltd.	4,000,000.00	32,724,814.58	Asset value rebounded
Zhejiang Zheneng Zhenhai Gas Thermal Power Co., Ltd.	5,853,580.00	5,853,580.00	Asset value rebounded
Beijing Guodian Lantian Energy Saving Technology Development Co., Ltd.	5,465,000.00	5,465,000.00	Asset value rebounded
Datang Gansu Power Generation Co., Ltd. Jingtai Power Plant	611,477.58	4,403,241.42	Asset value rebounded
Datang Changshan Thermal Power Plant	10,000.00	35,000.00	Asset value rebounded
Shajiao C Power Plant of Guangdong Energy Group Co., Ltd.	36,404.01	36,404.01	Asset value rebounded
Guodian (Beijing) Distribution Center Co., Ltd.	208,615.21	339,551.09	Asset value rebounded
Guodian Electric Power Jiuquan Power Generation Co., Ltd.	58,309.46	58,309.46	Asset value rebounded
Guodian Northeast Electric Power Co., Ltd. Shenxi Thermal Power Plant	7,311.35	7,311.35	Asset value rebounded
National Energy Jilin Longhua Thermal Power Co., Ltd. Jilin Thermal Power Plant	319,352.75	381,404.00	Asset value rebounded
Guodian Longhua Yanji Thermal Power Co., Ltd.	17,377.50	19,477.50	Asset value rebounded
Guodian Nanjing Electric Power Test Research Co., Ltd.	14,925.00	14,925.00	Asset value rebounded
Guoneng Shuangyashan Power Generation Co., Ltd.	741,873.91	1,099,123.93	Asset value rebounded
State Power Investment Group Pingdingshan Thermal Power Co., Ltd.	83.30	83.30	Asset value rebounded

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(I) Accounts receivable (Continued)

2. Current provision, reversal or recovery of bad debts (Continued)

Debtor	Reversal or recovery Amount	Accrued bad debt allowance amount	Reversal or recovery reason
National Energy Group Taizhou Power Generation Co., Ltd.	14,750.00	14,750.00	Asset value rebounded
National Energy Penglai Power Generation Co., Ltd.	663,529.00	673,454.00	Asset value rebounded
Guoneng (Quanzhou) Thermal Power Co., Ltd.	555,749.25	986,609.25	Asset value rebounded
Harbin Guanghan Power Technology Development Co., Ltd.	41,600.00	114,600.00	Asset value rebounded
Huadian Xinjiang Power Generation Co., Ltd. Hongyanchi Branch	490.00	490.00	Asset value rebounded
Huaneng Daqing Thermal Power Co., Ltd.	9,184.00	9,184.00	Asset value rebounded
Huaneng International Power Co., Ltd. Jinggangshan Power Plant	24,532.33	24,532.33	Asset value rebounded
Huaneng International Power Co., Ltd. Shantou Power Plant	4,454.88	4,454.88	Asset value rebounded
Huaneng Nanjing Jinling Power Generation Co., Ltd.	785.33	785.33	Asset value rebounded
Huaneng Qinmei Ruijin Power Generation Co., Ltd.	956.00	956.00	Asset value rebounded
Huaneng Tongxiang Gas Turbine Thermal Power Co., Ltd.	610.40	610.40	Asset value rebounded
Huaneng Wuhan Power Generation Co., Ltd.	718.05	718.05	Asset value rebounded
Huaneng Xining Thermal Power Co., Ltd.	987.45	987.45	Asset value rebounded
Huaneng Yingkou Thermal Power Co., Ltd.	67,982.50	135,965.00	Asset value rebounded
Liaoning Huadian Tieling Power Generation Co., Ltd.	1,650.00	1,650.00	Asset value rebounded
Luoyang Yichuan Longquan Kengkou Captive Power Generation Co., Ltd.	7,500.00	7,500.00	Asset value rebounded
Inner Mongolia Huayizuozhi Thermal Power Co., Ltd.	4,160.00	9,360.00	Asset value rebounded

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(I) Accounts receivable (Continued)

2. Current provision, reversal or recovery of bad debts (Continued)

Debtor	Reversal or recovery Amount	Accrued bad debt allowance amount	Reversal or recovery reason
Pingdingshan Yaomeng Power Generation Co., Ltd.	77,950.00	77,950.00	Asset value rebounded
Sateri (China) Fiber Co., Ltd.	13,205.44	13,205.44	Asset value rebounded
Shanxi Xingneng Power Generation Co., Ltd.	111,424.16	114,000.00	Asset value rebounded
Shanxi Zhangdian Tonghua Power Generation Co., Ltd.	42,763.32	42,763.32	Asset value rebounded
Xi'an Thermal Engineering Research Institute Co., Ltd.	308,000.00	388,000.00	Asset value rebounded
PowerChina Gansu Energy Investment Co., Ltd.	6,787.50	6,787.50	Asset value rebounded
CNPC Electric Power Co., Ltd.	109,400.85	462,140.85	Asset value rebounded
MCC Southern Urban Environmental Engineering Technology Co., Ltd.	964,706.60	13,647,293.35	Asset value rebounded
Shandong Luyi International Electric Power Co., Ltd.	170,416.80	478,917.00	Asset value rebounded
Mishan Chenneng Biomass Power Generation Co., Ltd.	619,800.00	619,800.00	Asset value rebounded
Everbright Harbin Electric Environmental Protection Energy (Harbin) Co., Ltd.	250,000.00	1,144,000.00	Asset value rebounded
Chongqing Sanfeng Covanta Environmental Industry Co., Ltd.	600,200.00	600,200.00	Asset value rebounded
Huaneng Jiyang Biomass Thermal Power Co., Ltd.	148,425.00	232,900.00	Asset value rebounded
Dongying Gangcheng Heating Co., Ltd.	41,147.85	1,688,800.00	Asset value rebounded
Ping An International Financial Leasing Co., Ltd.	4,395,000.00	4,395,000.00	Asset value rebounded
China Nuclear Power Engineering Co., Ltd.	581,868.69	820,913.13	Asset value rebounded
Shandong Ludian International Trade Co., Ltd.	773,741.21	773,741.21	Asset value rebounded
CNNC Longyuan Technology Co., Ltd.	2,631.56	2,631.56	Asset value rebounded
Total	36,166,603.96	86,142,451.41	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(I) Accounts receivable (Continued)

3. The top five receivables according to the closing balance of arrears

Debtor	Carrying Amount	Proportion (%)	Bad debt provision
Luoyang Wanzhong Geely Thermal Power Co., Ltd.	231,362,444.00	7.72	185,069,527.00
Jiangxi Ganneng Co., Ltd. Fengcheng Phase III Power Plant	452,121,410.88	15.09	22,606,070.54
Linyi Huasheng Jiangquan Energy Co., Ltd.	340,410,000.00	11.36	84,494,500.00
Ningbo Liqin Mining Co., Ltd.	174,541,155.56	5.82	8,727,057.78
Inner Mongolia Energy Power Generation Investment Group Co., Ltd. Jinshan Second Thermal Power Branch	255,792,000.00	8.54	12,789,600.00
Total	1,454,227,010.44	48.53	313,686,755.32

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(II) Other receivables

Items	Closing balance	Opening balance
Interest receivable		
Dividend receivable	21,286,403.99	145,786,403.99
Other receivables	774,225,997.19	1,558,562,071.31
Total	795,512,401.18	1,704,348,475.30

1. Dividend receivable

Items	Closing balance	Opening balance	non recovery reason	Impairment or not
Within 1 year				
1. Harbin Boiler Valve Co., Ltd				
Over 1 years				
1. Harbin Electric Machinery Co., Ltd	17,323,540.23	17,323,540.23		No
2. Harbin Power Technology and Trade Co., Ltd.	1,050,000.00	1,050,000.00		No
3. Chengdu Sanya China Ceramics Co., Ltd	2,912,863.76	2,912,863.76		No
4. Harbin Power Group Harbin Power Station Valve Co., Ltd.		124,500,000.00		No
Total	21,286,403.99	145,786,403.99		

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(II) Other receivables (Continued)

2. Other receivables

type	Closing balance				Opening balance			
	Carrying Amount		Bad debt provision		Carrying Amount		Bad debt provision	
	Amount	proportion (%)	Amount	proportion (%)	Amount	proportion (%)	Amount	proportion (%)
Other accounts receivable with single item provision for bad debts	750,688,733.92	94.93			1,528,308,702.63	97.41		
Other receivables with bad debt provision according to credit risk characteristics	40,111,257.54	5.07	16,573,994.27	41.32	40,675,720.02	2.59	10,422,351.34	25.62
Total	790,799,991.46		16,573,994.27		1,568,984,422.65		10,422,351.34	

(1) Other receivables with individually accruing bad debt provision

Debtor	Carrying Amount	Bad debt provision	proportion (%)	reason
Harbin Electric Machinery Factory Co., Ltd.	13,000,000.00			Related parties are not accrued
Harbin Power Technology Trading Co., Ltd.	9,884,777.33			Related parties are not accrued
Chengdu Sanlia China Porcelain 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
HE Group (Qinhuangdao) Heavy Equipment Co., Ltd.	433,715,134.77			Related parties are not accrued
Harbin Sanlian Business Service Co., Ltd.	1,100,000.00			Related parties are not accrued
Total	750,688,733.92			

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(II) Other receivables (Continued)

2. Other receivables (Continued)

(2) Other receivables with bad debt provision according to credit risk characteristics

In the portfolio, other receivables with provision for bad debts based on aging analysis :

Age	Closing balance			Opening balance		
	Carrying Amount	proportion	Bad debt provision	Carrying Amount	proportion	Bad debt provision
	Amount	(%)		Amount	(%)	
Within 1 year (1 year included)	16,723,045.12	41.69	836,152.26	29,795,438.75	73.25	1,489,771.94
1-2 years (2 years included)	7,182,764.15	17.91	1,795,691.04	2,441,988.00	6.00	610,497.00
2-3 years (3 years included)	2,305,621.00	5.75	1,152,810.50	3,040.00	0.01	1,520.00
3-4 years (4 years included)	261,450.00	0.65	209,160.01	131,131.87	0.32	104,905.50
4-5 years (5 years included)	5,290,984.00	13.19	4,232,787.18	442,322.49	1.09	353,857.99
Over 5 years	8,347,393.27	20.81	8,347,393.27	7,861,798.91	19.33	7,861,798.91
Total	40,111,257.54		16,573,994.27	40,675,720.02		10,422,351.34

(3) Current provision, reversal or recovery of bad debts

Debtor	Reversal or recovery Amount	Accrued bad debt allowance amount	Reversal or recovery reason
HEG-GM Gas Turbine (Qinhuangdao) Co., Ltd.	48,616.74	48,616.74	Asset value rebounded
Total	48,616.74	48,616.74	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(II) Other receivables (Continued)

2. Other receivables (Continued)

(4) The top five other receivables by year-end balance of arrears

Debtor	nature	Carrying Amount	Age	Bad debt proportion (%)	allowance
Harbin Electric Machinery Factory Co., Ltd.	Exchanged	13,000,000.00	Over 5years	1.64	
Harbin Power Technology Trading Co., Ltd.	Exchanged	9,884,777.33	Over 5years	1.25	
Chengdu Sanlia China Porcelain Co., Ltd.	Exchanged	16,386,473.85	Over 5years	2.07	
Harbin Electric Power Equipment Co., Ltd.	Exchanged	276,602,347.97	3-4 years; 4-5 years; Over 5years	34.98	
HE Group (Qinhuangdao) Heavy Equipment Co., Ltd.	Exchanged	433,715,134.77	2-3 years; Over 5years	54.85	
Total		749,588,733.92		94.79	

(III) Long term equity investments

1. Long term equity investment shown as classification

Items	Opening balance	Current increase	Current loss	Closing balance
Investment in subsidiaries	6,979,723,000.53			6,979,723,000.53
Investment in joint ventures	34,590,393.24	48,500,000.00	10,208,085.55	72,882,307.69
Investment in associates	280,458,167.22	32,447,474.67	1,000,884.33	311,904,757.56
Subtotal	7,294,771,560.99	80,947,474.67	11,208,969.88	7,364,510,065.78
less : impairment for long term equity investments	3,000,000.00	84,811,282.29		87,811,282.29
Total	7,291,771,560.99	-3,863,807.62	11,208,969.88	7,276,698,783.49

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(III) Long term equity investments (Continued)

2. Investment in Subsidiary

Investee	Initial investment cost	Opening balance	Current increase	Current loss	Closing balance	Current	Impairment
						provision	preparation
						Impairment	preparation
						preparation	Closing balance
Harbin Electric Group Finance Co., Ltd.	833,787,946.00	837,122,531.11			837,122,531.11		
Harbin Boiler Factory Co., Ltd.	679,203,892.28	949,841,367.00			949,841,367.00		
Harbin Steam Turbine Plant Co., Ltd.	692,422,891.68	1,146,617,659.04			1,146,617,659.04		
Harbin Electric Power Equipment Co., Ltd.	87,206,900.00	1,022,652,962.04			1,022,652,962.04		
Harbin Electric Machinery Factory Co., Ltd.	678,546,878.74	951,874,434.97			951,874,434.97		
HE Group (Qinhuangdao) Heavy Equipment Co., Ltd.	171,624,440.08	571,568,274.86			571,568,274.86		
Harbin Electric International Engineering Co., Ltd.	136,000,000.00	500,000,000.00			500,000,000.00		
HE Power Generation Equipment National Engineering Research Center Co., Ltd.	30,000,000.00	120,004,550.35			120,004,550.35		
Harbin Power Plant Valve Co., Ltd. of HE Group	97,002,844.08	97,002,844.08			97,002,844.08		
Harbin Harbin Electric Co., Ltd.	27,804,100.00	25,780,234.61			25,780,234.61		
Harbin Power Technology Trading Co., Ltd.	15,000,000.00	15,000,000.00			15,000,000.00		
Chengdu Sanlia Technology Co., Ltd.	14,268,142.47	14,268,142.47			14,268,142.47		
Shenzhen Hardong Huihua Industry and Trade Co., Ltd.	3,000,000.00	3,000,000.00			3,000,000.00		3,000,000.00
HE Group Shanxi Environmental Protection Engineering Co., Ltd.	49,980,000.00	49,980,000.00			49,980,000.00		
HE Financial Leasing (Tianjin) Co., Ltd.	136,000,000.00	400,000,000.00			400,000,000.00		
HE Group Biomass Power Generation (Wangkui) Co., Ltd.		136,100,000.00			136,100,000.00		
HE Group Biomass Power Generation (Dehui) Co., Ltd.		138,910,000.00			138,910,000.00		
Total	3,651,848,035.33	6,979,723,000.53			6,979,723,000.53		3,000,000.00

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(III) Long term equity investments (Continued)

3. Investment in associates and joint ventures

Investee	The cost of investment	Opening balance	Add investment	Reduce investment	Changes in current period						Closing balance	Closing balance for impairment	
					Confirmed under the equity method Investment gains and losses	Other comprehensive income adjustment	Changes in other equity	Declare cash Dividend or profit	Provision for impairment	Other			
Total	201,535,600.00	315,048,560.46	54,679,000.00		16,060,389.12				1,000,884.33	84,811,282.29		384,787,065.25	84,811,282.29
1. Joint venture	44,995,800.00	34,590,393.24	48,500,000.00		-10,208,085.55							72,882,307.69	
Harbin electric general gas turbine (Qinhuangdao) Co., Ltd	42,620,800.00	32,529,109.82	48,500,000.00		-8,597,897.82							72,431,212.00	
Russia-China Power Equipment Co., Ltd.	2,375,000.00	2,061,283.42			-1,610,187.73							451,095.69	
2. Associates	156,539,800.00	280,458,167.22	6,179,000.00						1,000,884.33	84,811,282.29		116,179,000.00	84,811,282.29
GE-Ha Power Energy Services (Qinhuangdao) Co., Ltd.	17,739,800.00	140,545,273.52			22,366,560.42							162,911,833.94	
Harbin Ruifeng New Energy Co., Ltd.	28,800,000.00	29,912,893.70			3,901,914.25				1,000,884.33			32,813,923.62	
Liaocheng Xiangguang Power Generation Co., Ltd.	110,000,000.00	110,000,000.00	6,179,000.00							84,811,282.29		116,179,000.00	84,811,282.29

(IV) Operating income and cost

Items	Current income		The amount of the previous period	
	Income	Cost	Income	Cost
1. Main business subtotal	4,656,737,612.02	4,646,377,749.88	5,335,394,851.65	5,328,644,195.23
nuclear power	98,457,276.76	98,457,276.76		500,437,744.16
Thermal power host equipment	4,558,280,335.26	4,547,920,473.12	4,818,609,309.50	4,828,206,451.07
2. Other business subtotals	13,261,451.49	5,203,610.09	18,540,574.39	6,125,403.01
other	13,261,451.49	5,203,610.09	18,540,574.39	6,125,403.01
total	4,669,999,063.51	4,651,581,359.97	5,353,935,426.04	5,334,769,598.24

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVI. PARENT COMPANY FINANCIAL STATEMENT MAIN PROJECT NOTES (CONTINUED)

(V) Investment income

1. Details of investment income

Items	Current period amount	The amount of the previous period
Long-term equity investment income accounted for by the equity method	16,060,389.12	5,348,236.27
Long-term equity investment income calculated by cost method	278,080,626.73	311,319,872.20
Total amount	294,141,015.85	316,668,108.47

XVII ADDITIONAL MATERIALS

(I) Current non-recurring profit and loss schedule

Items	Amount	Explain
Profit of non-current asset disposal	102,735,322.25	
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)	214,831,073.38	
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	2,954,592.00	
Corporate restructuring costs, such as expenditures for resettlement of employees, integration costs, etc.		

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVII. ADDITIONAL MATERIALS (CONTINUED)

(I) Current non-recurring profit and loss schedule (Continued)

Items	Amount	Explain
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		
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	-4,773,422.58	
Reversal of impairment provision for receivables that was individually tested for impairment	246,739,548.33	
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	78,905,615.90	
Other profit and loss Items that meet the definition of non-recurring profit and loss		
Income tax impact	77,338,215.41	
The impact of minority shareholders' equity	27,257,948.97	
total	489,034,707.45	

NOTES TO FINANCIAL STATEMENTS OF YEAR 2021

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

XVII. ADDITIONAL MATERIALS (CONTINUED)

(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	-30.41	-2.43	-2.43
Net profit attributable to common shareholders of the company after deducting non-recurring gains and losses	-34.04	-2.71	-2.71

Harbin Electric Co., Ltd

April 25, 2021

DISCLOSURE OF SIGNIFICANT EVENTS

PRODUCTION AND OPERATION EVENTS

In June 2021, Xi Jinping, General Secretary of the Central Committee of the Chinese Communist Party, President of the People's Republic of China, and Chairman of the Central Military Commission, sent a letter of congratulations on the official grid connection for power generation of the No. 14 unit on the right bank of the Baihetan hydropower station with the world's largest single-unit capacity developed by Electric Machinery Company, and Li Keqiang, Member of the Standing Committee of the Political Bureau of the Communist Party of China (CPC) Central Committee and Premier of the State Council, provided comments and instructions.

In June 2021, the Company entered into the electromechanical general contract for the Tarbela Phase V $3 \times 470\text{MW}$ hydropower project, which is a hydropower unit with the largest single-unit capacity in Pakistan and known as the "Three Gorges Project" in Pakistan.

In September 2021, as a major international cooperation project under the "Belt and Road" initiative contracted by HE International and the first clean coal-fired power station in the Middle East, the No. 2 unit of Dubai Haxiang $4 \times 600\text{MW}$ Coal Power Plant Project entered commercial operation.

In December 2021, the No. 1 unit of the Huanggou Pumped Storage Power Station, China's first pumped storage unit developed by Electric Machinery Company using the four-branch technology, was put into trial operation.

In December 2021, the first unit of Yangjiang Pumped Storage Power Station, the pumped storage unit with the largest single-unit capacity in China developed by Electric Machinery Company, was formally put into operation.

OTHER EVENTS

On 29 January 2021, with the approval of the extraordinary general meeting, Mr. Si Ze-fu, Mr. Wu Wei-zhang, Mr. Sun Zhi-yong, Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing and Mr. Tang Zhi-hong were appointed as Directors of the Company; Mr. Qu Zhe, Mr. Liu Wei-min and Mr. Zhang Jun were appointed as the Shareholder representative Supervisors of the Company. At the same time, Mr. Yang Yu-long and Mr. Zhao Xin were elected as employee representative Supervisors of the ninth session of the Supervisory Committee of the Company through democratic election of the employees of the Company.

On 29 January 2021, the share appreciation rights incentive plan and scheme were approved by the shareholders' general meeting of the Company. On the same day, the Board announced that the conditions for granting the share appreciation rights incentive plan and scheme had been fulfilled, and 48.32 million shares appreciation rights were formally granted to 281 participants. According to the incentive scheme and plan of Share Appreciation Right, since the performance of the Company in 2021 does not meet the performance target of the first exercise period of Share Appreciation Right, one third of the number of Share Appreciation Right proposed to grant to each grantee (the first exercise period) is not exercisable.

On 9 April 2021, Harbin Boiler Company Limited, a wholly-owned subsidiary of the Company, entered into the "Investment Agreement in Zesheng Environmental Company*" (澤盛環保公司) to increase the capital of Zesheng Environmental Company by RMB120 million in cash to hold approximately 50.42% equity interests in Zesheng Environmental Company, making in Zesheng Environmental Company a subsidiary of Harbin Boiler Company Limited.

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

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Mr. Cao Zhi-an

AUTHORISED REPRESENTATIVES

Mr. Wu Wei-zhang
Mr. Ai Li-song

COMPANY SECRETARY

Mr. Ai Li-song

JOINT COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael

AUDITORS

Da hua Certified Public Accountants (special general partnership)

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as to PRC Law

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The People's Republic of China

DOCUMENTS AVAILABLE FOR INSPECTION

1. The original copy of the 2021 Annual Report of the Company
2. The original copy of the Company's audited financial statements



哈电集团
HARBIN ELECTRIC CORPORATION

哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

