哈电集团
HARBIN ELECTRIC CORPORATION

哈尔滨电气股份有限公司
HARBIN ELECTRIC COMPANY LIMITED

(Stock Code: 1133)

2026
INTERIM REPORT

Contents

2026 INTERIM REPORT OF THE BOARD

The Board of Directors (the "**Board**") of Harbin Electric Company Limited (the "**Company**") hereby announces the operating results of the Company and its subsidiaries for the six months ended 30 June 2026, which were prepared in accordance with the Chinese Enterprises Accounting Standard. Such operating results have not been audited but have been reviewed by ShineWing Certified Public Accountants LLP.

Unless otherwise specified, the currency mentioned in this report was Renminbi.

INDUSTRY DEVELOPMENT AND BUSINESS REVIEW

In the first half of 2026, China adhered to the general working principle of pursuing progress while ensuring stability, fully, accurately and comprehensively applied the new development philosophy, accelerated the fostering of a new development pattern, strived to promote high-quality development, and implemented more proactive and effective macro policies. The economy withstood pressures and operated within a reasonable range, showing a development trend featured by new driving forces and improved structure. From the perspective of the power industry, China's power consumption was characterised by growing total volume, improved structure and new driving forces. China's power system operated safely and stably, the power supply structure underwent continuous green and low-carbon transformation, and power supply and demand remained generally balanced. China's newly installed power generation capacity reached 159 million kilowatts, of which thermal power was 38.36 million kilowatts, hydropower was 6.03 million kilowatts, nuclear power was 3.62 million kilowatts, grid-connected wind power was 38.62 million kilowatts, and grid-connected solar power was 72.07 million kilowatts. As of 30 June 2026, the total installed capacity of power generation on a consolidated basis in China stood at 4.043 billion kilowatts, of which thermal power was 1.569 billion kilowatts, conventional hydropower was 385 million kilowatts, and pumped-storage hydropower was 69 million kilowatts, nuclear power was 66 million kilowatts, grid-connected wind power was 679 million kilowatts, and grid-connected solar power was 1.274 billion kilowatts.

In the first half of 2026, the Company deeply studied and implemented the important speeches and important instructions of General Secretary Xi Jinping and the decisions and deployments of the Central Committee of the Communist Party of China, remained unwaveringly anchored on its full-year targets, strengthened confidence, forged ahead with resolve, fulfilled its responsibilities, maintained a development momentum of steady progress, and achieved steady improvement in operational quality and efficiency.

OPERATING RESULTS

In the first half of 2026, the Company recorded an operating revenue of RMB24,799.16 million, representing an increase of 10.35% as compared with the same period last year. The Company recorded a net profit attributable to owners of the parent company of RMB1,717.90 million, representing an increase of 63.47% as compared with the same period last year. Earnings per share were RMB0.77, representing an increase of RMB0.30 as compared with the same period last year. The Company's total equity attributable to the owners of the parent company at the end of the period was RMB18,780.80 million, representing an increase of RMB979.33 million over the beginning of the year; and net assets per share were RMB8.40, representing an increase of RMB0.44 over the beginning of the year.

NEW CONTRACTS

In the first half of 2026, the amount of formal contracts signed of the Company realized RMB36.040 billion, representing a year-on-year increase of 1.35%, of which new-type power equipment amounted to RMB27.102 billion, representing a year-on-year increase of 41.19% (including RMB16.014 billion and a year-on-year increase of 41.89% for coal power equipment, RMB6.312 billion and a year-on-year increase of 5.27% for hydropower equipment, RMB2.686 billion and a year-on-year increase of 209.80% for nuclear power equipment); green and low carbon driven equipment amounted to RMB247 million, representing a year-on-year decrease of 34.31%; clean and efficient industrial system amounted to RMB2.066 billion, representing a year-on-year increase of 15.29%; EPC and trading amounted to RMB2.964 billion, representing a year-on-year decrease of 71.73%; and modern manufacturing and service industry amounted to RMB3.661 billion, representing a year-on-year decrease of 1.40%.

In the first half of 2026, the value of export contracts by the Company amounted to RMB4.862 billion, representing a year-on-year decrease of 59.05%.

The main reason for the significant year-on-year increase in the amount of formal contracts signed for coal power and nuclear power equipment is that the previously awarded and signed projects have taken effect and been executed; the reason for the significant year-on-year decrease in the amount of formal contracts signed for EPC and trading and export orders is that the Company's large-scale EPC projects in Saudi Arabia took effect and were executed in the same period of last year, while no new large-scale EPC projects of similar scale have taken effect and been executed in the corresponding period of the current year.

PRODUCT OUTPUT

The capacity of the Company's power equipment produced in the first half of 2026 was 25,430 MW, representing an increase of 26.38% as compared with the same period last year, and among which water turbine generators sets generated a total of 8,060 MW, representing an increase of 73.72% as compared with the same period last year; steam turbine generators generated a total of 17,370 MW, representing an increase of 12.19% as compared with the same period last year; utility boilers for power stations generated a total of 9,270 MW, representing an increase of 611.87% as compared with the same period last year, and steam turbines for power stations generated a total of 15,400 MW, representing an increase of 62.24% as compared with the same period last year.

OPERATING REVENUE AND COST

In the first half of 2026, the Company recorded an operating revenue of RMB24,799.16 million, representing a year-on-year increase of 10.35% as compared with the same period last year. In particular, new-type power equipment was RMB15,940.56 million, representing a year-on-year increase of 10.21% (including RMB10,297.03 million and a year-on-year increase of 8.31% for coal power industry, RMB2,382.91 million and a year-on-year increase of 42.22% for hydropower industry, RMB1,970.37 million and a year-on-year decrease of 22.93% for nuclear power industry); green and low carbon driven equipment was RMB277.02 million, representing a year-on-year increase of 62.23%; clean and efficient industrial system was RMB2,620.67 million, representing a year-on-year increase of 15.99%; EPC and trading was RMB4,717.15 million, representing a year-on-year increase of 38.53%; and modern manufacturing and service industry was RMB1,077.12 million, representing a year-on-year decrease of 46.00%.

The Company recorded an export turnover of RMB4,181.03 million, accounting for 16.86% of the operating revenue. The exports were mainly concentrated on Saudi Arabia and Pakistan, accounting for 14.96% of the operating revenue and 88.71% of the export turnover.

The operating cost of the Company was RMB21,079.85 million, representing an increase of 6.65% as compared with the same period last year, and the growth rate of operating cost was lower than that of operating revenue.

GROSS PROFIT AND GROSS PROFIT MARGIN

In the first half of 2026, the Company realized a gross profit from operating business of RMB3,719.31 million, representing an increase of 37.35% as compared with the same period last year. The gross profit margin was 15.00%, representing an increase of 2.95 percentage points as compared with the same period last year. In particular, the gross profit from new type power equipment was RMB2,887.36 million and the gross profit margin was 18.11%, representing a year on year increase of 1.27 percentage points (including RMB2,100.90 million, 20.40% and a year-on-year increase of 2.75 percentage points for coal power equipment, RMB391.48 million, 16.43% and a year-on-year increase of 2.60 percentage points for hydropower equipment, RMB273.59 million, 13.89% and a year-on-year decrease of 2.78 percentage points for nuclear power equipment); the gross profit from green and low carbon driven equipment was RMB41.19 million and the gross profit margin was 14.87%, representing a year-on-year increase of 8.18 percentage points; the gross profit from clean and efficient industrial system was RMB126.01 million and the gross profit margin was 4.81%, representing a year-on-year decrease of 0.53 percentage points; the gross profit from EPC and trading was RMB365.84 million and the gross profit margin was 7.76%, representing a year-on-year increase of 16.95 percentage points; the gross profit from modern manufacturing and service industry was RMB225.35 million and the gross profit margin was 20.92%, representing a year-on-year decrease of 1.12 percentage points.

The slight increase in the Company's gross profit margin was mainly due to the improvement in profitability as compared with the same period last year as a result of the fact that the Company further improved quality and efficiency and strengthened cost control.

EXPENSES FOR THE PERIOD

In the first half of 2026, the Company incurred expenses for the current period of RMB1,746.13 million, representing an increase of RMB170.86 million as compared with the same period last year. In particular, distribution expenses incurred amounted to RMB281.45 million, representing an increase of RMB42.48 million as compared with the same period last year; administrative expenses incurred amounted to RMB861.88 million, representing an increase of RMB103.49 million as compared with the same period last year; R&D expenses incurred amounted to RMB460.57 million, representing an increase of RMB28.51 million as compared with the same period last year; financial costs incurred amounted to RMB142.23 million, representing a decrease of RMB3.62 million as compared with the same period last year.

ASSETS AND LIABILITIES

As at 30 June 2026, the total assets of the Company amounted to RMB86,934.94 million, representing an increase of RMB8,272.14 million or 10.52% over the beginning of the period, among which the current assets were RMB73,521.42 million, accounting for 84.57% of the total assets, and the non-current assets were RMB13,413.52 million, accounting for 15.43% of the total assets. The total liabilities of the Company amounted to RMB67,487.54 million, representing an increase of RMB7,301.01 million or 12.13% over the beginning of the period, which was mainly due to the growth in business scale resulting in the increase in accounts payable and contract liabilities (advances from customers), among which the current liabilities were RMB64,920.49 million, accounting for 96.20% of the total liabilities, and the non-current liabilities were RMB2,567.04 million, accounting for 3.80% of the total liabilities. As at 30 June 2026, the gearing ratio of the Company was 77.63%, representing a decrease of 1.45 percentage points as compared with the same period last year.

CAPITAL AND GEARING RATIO

As at 30 June 2026, the gearing ratio of the Company (calculated as non-current liabilities over total shareholders' equity) was 0.13:1 as compared to 0.14:1 at the beginning of the period.

MONETARY CAPITAL AND CASH FLOWS

As at 30 June 2026, the monetary capital of the Company was RMB20,109.05 million, representing an increase of RMB4,863.12 million or 31.90% as compared to the beginning of the period. During the period, the net cash flow generated from operating activities of the Company was RMB6,347.76 million, representing a significant increase as compared to the same period of last year, which was mainly due to the fact that the Company has increased its efforts to recover payments and achieved positive results, while investing activities generated net cash flow of RMB-302.43 million and financing activities generated net cash flow of RMB-272.15 million.

FUNDING SOURCE AND BORROWING STATUS

The Company currently has four funding sources for operation and development, namely shareholder's funds, trade receivables from customers, bank borrowings and entrusted loan of national funds. The Company arranges borrowings based on each specific project. Except for some exceptions, loans will be raised individually by the Company's subsidiaries. However, prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 30 June 2026, the Company's total borrowings amounted to RMB4,281.96 million, all of which amounts were borrowed from various commercial banks and state-policy banks at LPR and entrusted loan of national funds. Among those borrowings, the amount repayable within one year amounted to RMB3,989.03 million, representing a decrease of RMB191.91 million as compared with the beginning of the year; the borrowings repayable after one year amounted to RMB292.93 million, representing a decrease of RMB37.10 million as compared to the beginning of the year. As at 30 June 2026, the Company's contracted liabilities were RMB37,037.41 million, representing an increase of RMB2,952.66 million from that at the beginning of the period.

MAJOR INVESTMENTS HELD, MAJOR ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND THE FUTURE PLAN ON MAJOR INVESTMENTS OR PURCHASE OF CAPITAL ASSETS

In the first half of 2026, the Company had made fixed assets investments of RMB559.00 million, which were mainly utilized for investment in technical measures and technical transformation for maintaining the normal production and operation of nuclear power, gas-fired power and hydropower industry layout capability guarantee projects and subsidiaries. There is no significant change in the 2026 investment plan of the Company.

Save as disclosed above, the Company did not have any other major investment, significant acquisition or disposal of subsidiaries, or approve any other major investment or plan on acquisition of capital assets during the period.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The export business and the businesses settled in foreign currencies and all deposits denominated in foreign currencies of the Company are exposed to exchange risk. As of 30 June 2026, the Company's deposits denominated in foreign currencies were equivalent to approximately RMB2,796.87 million. To effectively control the risk of exchange rate fluctuation in the foreign exchange market, the Company has signed contracts of Forward FX sales and purchase with banks for some future foreign currency receivables of overseas projects.

USE OF FUND-RAISING PROCEEDS

The funds raised by the Company from the issuance of shares and bonds in previous years have been fully utilised in accordance with the intended purposes and timelines as planned. No funds were raised by the Company during the reporting period.

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 29 January 2016 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 22 June 2016, corporations including five subsidiaries of the Company, namely Harbin Boiler Company Limited, Harbin Electric Machinery Company Limited, Harbin Turbine Company Limited, HE (QHD) Heavy Equipment Company Limited and HE Harbin Power Plant Valve Company Limited were recognised as High and New Technology Enterprises, and shall be entitled to a 15% preferential income tax rate.

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 mainly 13% effective from 1 April 2019.

In accordance with the relevant requirements of the *Announcement of the Ministry of Finance and the State Administration of Taxation on Improving the Policy of Value-Added Tax Credit Refund* (《財政部稅務總局關於完善增值稅期末留抵退稅政策的公告》) in 2025, the Company is entitled to a refund of the newly-added credits and a one-time refund of the existing tax credits.

SCIENTIFIC AND TECHNOLOGICAL INNOVATION

In the first half of 2026, the Company adhered to enhancing core competitiveness through the in-depth integration of technological innovation and industrial innovation, adhered to innovation leading development, promoted high-level technological self-reliance and self-improvement, accelerated the development of new quality productivity, and helped to build a modern industrial system underpinned by advanced manufacturing. It continuously integrates into the national science and technology innovation system, strengthens the construction of various national-level science and technology innovation platforms, and builds a science and technology innovation system with complete elements, complete functions, flexible mechanisms, and efficient collaboration. It continuously increases R&D investment; R&D investment increased by 24.85% year-on-year in the first half of the year, with a R&D investment intensity of 5.00%. A total of 16 new national-level, provincial and ministerial-level R&D tasks were added. The completion rate of milestone targets for the undertaken major national science and technology projects reached 100%. The Phase-III tasks of key core technology research and development projects, research tasks of central enterprise innovation consortiums and scientific research projects of the Green and Low-Carbon Energy Innovation Institute were advanced as scheduled. It deepens scientific and technological innovation and open cooperation, continues to strengthen in-depth cooperation with Huairou National Laboratory, and carries out the development task for the Jinshan Project of Mengneng Group, a demonstration project under the major special project of new-generation coal-fired power technology.

In the first half of 2026, all four 425MW water turbine generator units of the Zhejiang Tiantai Pumped-Storage Power Station, the pumped-storage power station with the world's rated highest water head and China's largest single-unit capacity independently developed by the Company, were put into grid-connected power generation. The world's first 50-MW 4-pole salient-pole distributed phase-modulator independently developed by the Company passed verification and was officially put into operation. The domestic first 16-MW gas turbine prototype (HGT16) independently developed by the Company completed the full-load test of the natural gas generator. Three sets of 85-MW vertical-shaft mixed-flow water-turbine generator units of the Huaneng Zangmu Hydropower Station, Tibet's first large-scale hydropower station independently developed by the Company, successfully passed the project completion acceptance. The Company independently tackled the key technologies for G115 heat-resistant steel series valves, and the supporting valves have been applied to the Datang Yuncheng 630 ℃ double-reheat million-kilowatt unit. Unit 2 of the Guoxin Suyan Huai'an Salt-Cavern Compressed-Air Energy Storage Demonstration Project, the world's largest-scale compressed-air energy storage power station in which the Company participated in the development, achieved successful grid-connection on the first attempt and realised full-load power generation simultaneously.

EMPLOYEES, REMUNERATION, STOCK OPTION PLAN AND TRAINING

As at 30 June 2026, the Company has a total of 11,118 employees, and the total remuneration amounted to RMB1,129.69 million.

In the first half of 2026, there was no significant change in the Company's remuneration policy.

In the first half of 2026, the Company organized a total of 1,164 training sessions with 52,246 participants.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2026.

PROSPECTS

According to the forecast of China Electricity Council (CEC), the newly installed power generation capacity across China in 2026 is expected to reach 400 million kilowatts, and the installed capacity of solar power generation will surpass that of coal-fired power in the third quarter. By the end of 2026, China's total installed power generation capacity will reach approximately 4.3 billion kilowatts, among which the installed capacity of non-fossil energy power generation will stand at about 2.7 billion kilowatts, accounting for around 63% of the total installed capacity. The cumulative installed capacity of wind power and solar power generation will account for half of the total installed power generation capacity, while the proportion of coal-fired power installed capacity in the total installed capacity will drop to approximately 31%. The 15th Five-Year Plan for the Development of the New-Type Energy System proposes that by 2030, China's conventional hydropower installed capacity will reach about 410 million kilowatts, the in-operation nuclear power installed capacity about 110 million kilowatts, pumped-storage installed capacity about 160 million kilowatts, and new-type energy storage installed capacity about 300 million kilowatts. The Action Plan for Energy Conservation and Carbon Reduction in the Energy Sector (2026-2028) puts forward to close a batch of eligible coal-fired generating units of 300,000-kilowatt class and below in a prudent and orderly manner, encourage the construction of replacement units in compliance with requirements for new-generation coal-fired power, and promote the implementation of cross-generational upgrading and transformation to ultra-(super-)critical standards for a number of 600,000-kilowatt class coal-fired generating units.

In the second half of 2026, the Company will grasp the development direction from the full perspective of national strategies, seize development opportunities amid the optimisation and adjustment of the energy supply-demand structure, and forge core competitiveness for a high-quality start of the 15th Five-Year Plan period. We will keep pressing ahead towards the full-year targets and tasks, and strive to elevate high-quality development to new heights with the resolve of making steady progress through solid work and forging ahead to overcome challenges. We will continuously improve efficiency and benefits with higher standards, accumulate development potential by firmly establishing the concept of value creation, go all out to secure more high-quality orders, and steadily enhance our capacity to generate operating cash flows. We will foster new quality productive forces with greater efforts, comprehensively boost the effectiveness of national-level innovation platforms, step up efforts to tackle key core technologies, deepen the development of new industries to empower transformation and upgrading, and adapt to new development needs through comprehensive digital-intelligent transformation. We will strictly enforce the "Six Guarantees" requirements (guarantee targets for projects under research, guarantee delivery for projects under manufacturing, guarantee performance for newly commissioned projects, guarantee stability for in-operation projects, guarantee performance for international projects, and guarantee safety in production and operation), complete scientific research tasks with high quality and efficiency, continuously deliver on commitments in practice, and fully foster a safe and stable development environment. We will continue to deepen reforms with more practical measures, accelerate the establishment of a lean operation and management system, raise the level of compliance management by running the enterprise in accordance with the law, and advance new development under the 15th Five-Year Plan at a high standard. We will make new and greater contributions to advancing the building of a strong country and the great cause of national rejuvenation through Chinese-style modernisation, and repay shareholders for their attention and support with better operating results.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 30 June 2026, the total number of share capital of the Company was 2,236,276,000 shares, including 1,560,705,000 state-owned legal person shares and 675,571,000 overseas H shares. The interests and short positions of shareholders holding 5% or more of the issued share capital of relevant class of share of the Company, which were required to be recorded under the register of interests and short positions kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the "**SFO**"), are set out as follows:

Long positions in the shares of the Company:

Name of shareholders	Class of shares	Number of shares	Capacity	Percentage to underlying share capital	Percentage to total share capital
Harbin Electric Corporation	State-owned legal person shares	1,560,705,000	Beneficial owner	100%	69.79%
JP Morgan Chase & Co.	H shares	43,477,641	Beneficial owner/Investment manager/Person entitled to a security interest in the shares/Approved lending agent	6.44%	1.94%
Citigroup Inc.	H shares	34,201,312	Beneficial owner/Investment manager/Person entitled to a security interest in the shares/Approved lending agent	5.06%	1.53%

Save as disclosed above, as at 30 June 2026, the Company did not receive any notification about the interests or short positions in shares or underlying shares of the Company, which are required to be entered in the register pursuant to Section 336 of the SFO.

INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

In the first half of 2026, none of the Directors, Supervisors and Senior Management of the Company and their associates had or were deemed to have any interests and short positions in any shares, underlying shares or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under the SFO), or which were required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Listing Rules.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 of the Listing Rules. Upon making specific enquiries to the Directors and Supervisors, it is confirmed that all Directors and Supervisors have complied with the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers throughout the period.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

On 22 May 2026, the Company conducted a comprehensive revision to its Articles of Association in accordance with 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 other relevant laws, administrative regulations, departmental rules and the securities regulatory rules of the place where the Company's shares are listed. For details, please refer to the announcement of the Company dated 22 May 2026 concerning the details of the Articles of Association.

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

In the first half of 2026, neither the Company nor any of its subsidiaries purchased, sold, redeemed or cancelled any of the Company's listed securities (including sale of treasury shares). As at 30 June 2026, the Company held no treasury shares.

CONTINGENT LIABILITIES

As at 30 June 2026, the guarantees provided by the Company to its subsidiaries and the guarantees between subsidiaries of the Company amounted to RMB10.73 million in aggregate. There was no external guarantee of the Company.

PLEDGE OF ASSETS

As at 30 June 2026, the Company pledged its assets of RMB275.95 million (as at 30 June 2025: RMB289.84 million) to secure loans for liquidity.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the first half of 2026, by 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 Company has fully complied with the provisions set out in the Corporate Governance Code in Appendix C1 of the Listing Rules and, where appropriate, adopted the recommended best practices as specified therein.

The Board of the Company is responsible for the corporate governance functions. In the first half of 2026, the Board has strictly observed the policies and practices in compliance with laws and regulatory requirements, 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.

THE AUDIT COMMITTEE

The Audit Committee of the Company has reviewed and approved the interim report of the Company for the six months ended 30 June 2026. Members of the Audit Committee of the Company include: Mr. Gao Yi-bin, Mr. He Yu, Ms. Niu Xiang-chun and Mr. Li Xie-hua.

AUDITORS

ShineWing Certified Public Accountants LLP, the Company's auditor, has carried out a review of the unaudited interim report of the Company for the six months ended 30 June 2026 in accordance with the requirements of "China Certified Public Accountant Review Standard No. 2101 – Review of Financial Statement".

SHAREHOLDERS' MEETING

On 22 May 2026, the annual general meeting, the H shares class meeting and the domestic shares class meeting of the Company were convened in Harbin, the PRC. The following directors attended the annual general meeting, the H shares class meeting and the domestic shares class meeting: Mr. Huang Wei, Mr. Liu Qing-yong, Mr. Du Xing-kai, Mr. He Yu, Ms. Niu Xiang-chun, Mr. Gao Yi-bin and Mr. Li Xie-hua. For the results of relevant meetings, please refer to the announcement of the Company dated 22 May 2026 on the poll results of the general meeting.

OTHER DISCLOSEABLE INFORMATION

In the first half of 2026, the Company did not have any other information which was required to be disclosed pursuant to Rules 40.3(a) to (j) under Appendix D2 of the Listing Rules.

DOCUMENTS AVAILABLE FOR INSPECTION

The Articles of Association of the Company and the original copies of the interim report and the reviewed financial statements for the six months ended 30 June 2026 are available for inspection at the head office of the Company at 1399 Chuangxinyi Road, Songbei District, Harbin, the PRC.

REVIEW REPORT

XYZH/2026BJAA3B0601
Harbin Electric Company Limited

To all shareholders of Harbin Electric Company Limited,

We have reviewed the attached financial statements of Harbin Electric Company Limited (hereinafter referred to as "the Company"), including the consolidated and the parent company's Balance Sheets as of June 30, 2026, the consolidated and the parent company's Income Statements, the consolidated and the parent company's Cash Flow Statements and the consolidated and the parent company's Statements of Changes in Shareholders' Equity for January to June 2026, and the Notes to the Financial Statements. The preparation and fair presentation of these financial statements is the responsibility of the management of the Company, and our responsibility is to issue a review report on these financial statements based on the performance of our review.

We carried out the review in accordance with the Reviewing Standards for Certified Public Accountants of China No. 2101-Review of Financial Statements. These standards require us to plan and implement the review to obtain limited assurance on whether there is no material misstatement in the financial statements. The review is mainly limited to asking the relevant personnel of the Company and conducting analysis procedures on financial data, and the degree of assurance provided is lower than that of an audit. We did not conduct the audit, so we did not give an audit opinion.

Based on our review, we did not notice any matters that made us believe that the financial statements were not prepared in accordance with the Accounting Standards for Business Enterprises in all material aspects and that the financial statements did not fairly represent the financial position as of June 30, 2026 and the operating results and cash flows for January to June 2026 of the Company.

ShineWing Certified Public Accountants

CPA of China: Hu Song-lin
(Engagement Partner)

CPA of China: Ma Jing

Beijing, China

August 26, 2026

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2026

Prepared by: Harbin Electric Company Limited

Unit: RMB

Item	*Note*	30/06/2026	December 31, 2025
Current assets:			
Monetary fund	*VI. 1*	**20,109,049,667.75**	15,245,928,716.21
Financial assets held for trading		**2,000,000.00**	2,000,000.00
Derivative financial assets		**–**	–
Bills receivable		**747,537,061.53**	608,511,782.89
Accounts receivable	*VI. 2*	**6,252,968,327.85**	5,759,220,668.60
Receivables financing		**742,817,834.41**	570,947,744.81
Prepayments	*VI. 3*	**7,380,736,718.34**	7,844,056,661.37
Other receivables	*VI. 4*	**1,294,337,647.20**	1,048,305,666.41
Including: Interest receivable	*VI. 4*	**15,156,565.09**	10,941,635.51
Dividends receivable	*VI. 4*	**12,874,821.31**	8,842,879.26
Financial assets held under resale agreements		**975,000,000.00**	1,072,500,000.00
Inventories	*VI. 5*	**20,250,440,250.96**	18,856,189,846.69
Including: Data resources			
Contract assets	*VI. 6*	**10,703,925,632.86**	9,078,279,080.29
Assets held for sale		**–**	–
Non-current assets due within one year		**508,692,129.85**	471,894,177.66
Other current assets	*VI. 7*	**4,553,914,640.90**	4,392,650,137.09
Total current assets		**73,521,419,911.65**	64,950,484,482.02

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 2026

Item	Note	30/06/2026	December 31, 2025
Non-current assets:			
Debt investments		–	–
Other debt investments		1,012,399,380.68	1,010,844,608.08
Long-term receivables		601,156,405.11	607,481,090.17
Long-term equity investments		1,538,752,037.04	1,456,292,677.92
Other equity instrument investments		526,775,750.78	807,494,380.89
Other non-current financial assets		–	–
Investment properties	*VI. 8*	189,501,608.50	194,265,674.38
Fixed assets	*VI. 8*	6,755,061,892.31	6,720,446,609.37
Construction in progress	*VI. 8*	436,967,130.07	517,433,811.07
Productive biological assets		–	–
Oil and gas assets		–	–
Right-of-use assets		9,194,602.59	13,401,594.56
Intangible assets	*VI. 8*	994,394,517.54	1,031,082,088.34
Including: Data resources			
Development expenditures		70,945,754.71	70,009,430.39
Including: Data resources			
Goodwill		–	–
Long-term deferred expenses		17,462,583.47	21,090,329.68
Deferred tax assets		790,911,805.39	792,653,176.63
Other non-current assets	*VI. 9*	469,991,633.08	469,815,517.39
Total non-current assets		13,413,515,101.27	13,712,310,988.87
Total assets		86,934,935,012.92	78,662,795,470.89

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 2026

Item	Note	June 30, 2026	December 31, 2025
Current liabilities:			
Short-term borrowings	*VI. 10*	**3,646,130,373.43**	3,858,171,045.87
Borrowings from banks and other financial institutions			
Financial liabilities held for trading		**–**	–
Derivative financial liabilities		**–**	–
Bills payable		**1,465,963,747.71**	1,844,560,816.94
Accounts payable	*VI. 11*	**18,671,009,916.02**	13,899,099,770.11
Advances from customers		**–**	–
Contract liabilities	*VI. 12*	**37,037,406,457.15**	34,084,749,651.29
Financial assets sold under repurchase agreements			
Customer bank deposits and interbank deposits		**822,705,181.51**	799,351,790.47
Employee compensation payable		**703,611,003.79**	1,152,570,535.31
Taxes payable		**313,454,344.67**	527,334,616.51
Other payables		**1,454,011,109.48**	413,233,532.43
Including: Interest payable		**8,758,466.70**	7,198,762.54
Dividends payable		**803,359,804.53**	2,772,996.53
Held-for-sale liabilities		**–**	–
Non-current liabilities due within one year	*VI. 13*	**342,907,881.34**	322,778,137.32
Other current liabilities		**463,293,292.81**	647,966,508.65
Total current liabilities		**64,920,493,307.91**	57,549,816,404.90

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 2026

Item	Note	June 30, 2026	December 31, 2025
Non-current liabilities:			
Long-term borrowings		**292,928,900.59**	252,162,846.82
Bonds payable		**–**	–
Including: Preferred stocks		**–**	–
Perpetual bonds		**–**	–
Lease liabilities		**3,104,064.65**	3,489,629.62
Long-term payables		**20,232,639.43**	20,232,639.43
Long-term employee compensation payable		**250,513,826.83**	251,064,822.91
Provision		**1,747,183,297.11**	1,827,255,473.16
Deferred income		**246,470,864.86**	277,260,013.60
Deferred tax liabilities		**5,115,431.40**	5,249,501.44
Other non-current liabilities		**1,495,000.00**	–
Total non-current liabilities		**2,567,044,024.87**	2,636,714,926.98
Total liabilities		**67,487,537,332.78**	60,186,531,331.88

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 2026

Item	*Note*	June 30, 2026	December 31, 2025
Shareholders' equity			
Share capital	*VI. 14*	**2,236,276,000.00**	2,236,276,000.00
Other equity instruments		**–**	–
Including: Preferred stocks		**–**	–
Perpetual bonds		**–**	–
Capital reserves		**5,491,796,378.02**	5,491,563,058.67
Less: Treasury shares		**–**	–
Other comprehensive income		**31,532,380.50**	58,895,147.51
Special reserves		**75,851,954.86**	62,650,692.88
Surplus reserves		**1,033,247,486.89**	1,033,247,486.89
General risk reserve		**–**	–
Retained earnings		**9,912,097,270.79**	8,918,841,633.88
Total equity attributable to the parent company		**18,780,801,471.06**	17,801,474,019.83
Non-controlling interests		**666,596,209.08**	674,790,119.18
Total shareholders' equity		**19,447,397,680.14**	18,476,264,139.01
Total liabilities and shareholders' equity		**86,934,935,012.92**	78,662,795,470.89

Legal representative：

Person in charge of accounting：

Person in charge of the accounting firm：

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

June 30, 2026

Prepared by: Harbin Electric Company Limited *Unit: RMB*

Item	*Note*	**June 30, 2026**	December 31, 2025
Current assets:			
Monetary fund		**2,470,474,632.40**	1,493,407,100.48
Financial assets held for trading		**–**	–
Derivative financial assets		**–**	–
Bills receivable		**4,152,000.00**	77,120,000.00
Accounts receivable		**397,321,223.55**	533,864,026.70
Receivables financing		**290,865,480.49**	99,695,098.49
Prepayments		**2,438,602,672.09**	2,550,366,809.59
Other receivables		**446,470,165.95**	442,135,332.74
Including: Interest receivable		**892,603.09**	262,140.43
Dividends receivable		**6,908,286.54**	2,876,344.49
Inventories		**76,455,976.46**	77,244,530.47
Including: Data resources			
Contract assets		**1,040,824,180.92**	1,030,592,862.12
Assets held for sale		**–**	–
Non-current assets due within one year		**–**	–
Other current assets		**145,520,127.07**	118,174,362.32
Total current assets		**7,310,686,458.93**	6,422,600,122.91

PARENT COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 2026

Item	*Note*	June 30, 2026	December 31, 2025
Non-current assets:			
Debt investments		–	–
Other debt investments		–	–
Long-term receivables		–	–
Long-term equity investments		9,971,116,599.81	9,886,190,902.95
Other equity instrument investments		152,000,000.00	152,000,000.00
Other non-current financial assets		–	–
Investment properties		14,273,498.33	14,888,727.52
Fixed assets		547,235,198.20	560,334,791.93
Construction in progress		69,026.56	–
Productive biological assets		–	–
Oil and gas assets		–	–
Right-of-use assets		–	–
Intangible assets		178,887,787.41	189,335,682.82
Including: Data resources			
Development expenditures		76,834,869.22	76,639,270.52
Including: Data resources			
Goodwill		–	–
Long-term deferred expenses		–	–
Deferred tax assets		–	–
Other non-current assets		–	–
Total non-current assets		10,940,416,979.53	10,879,389,375.74
Total assets		18,251,103,438.46	17,301,989,498.65

PARENT COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 2026

Item	*Note*	**June 30, 2026**	December 31, 2025
Current liabilities:			
Short-term borrowings		**2,067,514,801.95**	2,067,489,049.74
Financial liabilities held for trading		**–**	–
Derivative financial liabilities		**–**	–
Bills payable		**–**	–
Accounts payable		**2,693,914,944.65**	2,813,634,756.04
Advances from customers		**–**	–
Contract liabilities		**2,520,824,437.24**	2,676,253,692.97
Employee compensation payable		**216,072,213.30**	215,599,719.63
Taxes payable		**3,230,163.72**	5,194,572.46
Other payables		**1,292,083,926.18**	450,213,019.37
Including: Interest payable		**–**	–
Dividends payable		**800,592,529.93**	5,721.93
Held-for-sale liabilities		**–**	–
Non-current liabilities due within one year		**–**	–
Other current liabilities		**4,437,289.25**	137,752,289.25
Total current liabilities		**8,798,077,776.29**	8,366,137,099.46

PARENT COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 2026

Item	*Note*	June 30, 2026	December 31, 2025
Non-current liabilities:			
Long-term borrowings		**–**	–
Bonds payable		**–**	–
Including: Preferred stocks		**–**	–
Perpetual bonds		**–**	–
Lease liabilities		**–**	–
Long-term payables		**–**	–
Long-term employee compensation payable		**363,855.81**	884,327.22
Provision		**50,178,365.85**	50,178,365.85
Deferred income		**55,382,581.17**	59,603,127.95
Deferred tax liabilities		**–**	–
Other non-current liabilities		**–**	–
Total non-current liabilities		**105,924,802.83**	110,665,821.02
Total liabilities		**8,904,002,579.12**	8,476,802,920.48

PARENT COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 2026

Item	*Note*	**June 30, 2026**	December 31, 2025
Shareholders' equity			
Share capital		**2,236,276,000.00**	2,236,276,000.00
Other equity instruments		**–**	–
Including: Preferred stocks		**–**	–
Perpetual bonds		**–**	–
Capital reserves		**4,796,067,100.48**	4,796,067,100.48
Less: Treasury shares		**–**	–
Other comprehensive income		**–**	–
Special reserves		**–**	–
Surplus reserves		**890,437,636.72**	890,437,636.72
Retained earnings		**1,424,320,122.14**	902,405,840.97
Total shareholders' equity		**9,347,100,859.34**	8,825,186,578.17
Total liabilities and shareholders' equity		**18,251,103,438.46**	17,301,989,498.65

Legal representative: Person in charge of accounting work: Person in charge of the accounting department:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

January to June 2026

Prepared by: Harbin Electric Company Limited *Unit: RMB*

Item	*Note*	January to June 2026	January to June 2025
I. Total revenue		**24,996,823,074.14**	22,696,104,178.47
Including: Operating revenue	*VI. 15*	**24,799,157,892.05**	22,474,007,780.48
Interest income		**197,665,182.09**	222,095,831.95
Fees and commissions income		**–**	566.04
II. Total operating cost		**22,950,488,365.52**	21,442,004,500.37
Including: Operating costs		**21,079,848,238.35**	19,766,182,792.21
Interest expenses		**3,248,417.72**	2,326,441.12
Fees and commissions expense		**266,484.39**	42,007.72
Taxes and surcharges		**120,991,535.85**	98,183,589.17
Selling expenses		**281,452,526.77**	238,976,218.92
Administrative expenses	*VI. 16*	**861,879,870.36**	758,385,864.32
R&D expenses		**460,574,196.73**	432,061,486.86
Financial expenses	*VI. 17*	**142,227,095.35**	145,846,100.05
Including: Interest expenses		**48,899,944.72**	70,434,251.46
Interest income		**24,804,068.40**	19,210,740.05
Add: Other income		**107,142,242.77**	126,367,654.23
Investment income (loss to be listed with "-")		**75,286,713.20**	135,387,812.97
Including: Income from investment in associates and joint ventures		**58,814,225.25**	43,107,793.56
Revenue from derecognition of financial assets at amortized cost		**–**	–
Exchange income (loss to be listed with "-")		**7,124.41**	106,711.56
Net exposure hedging revenue (loss to be listed with "-")			
Income from changes in fair value (loss to be listed with "-")		**3,603,025.00**	-5,830,192.40
Credit impairment loss (loss to be listed with "-")	*VI. 18*	**-231,082,794.02**	-196,485,698.47
Asset impairment loss (loss to be listed with "-")	*VI. 19*	**8,726,490.83**	-93,274,801.94
Gain on asset disposal (loss to be listed with "-")		**49,306.90**	2,408,683.04

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

January to June 2026

Item	*Note*	January to June 2026	January to June 2025
III. Operating profit (loss to be listed with "-")		**2,010,066,817.71**	1,222,779,847.09
Add: Non-operating revenue		**51,669,249.59**	14,383,265.51
Less: Non-operating expenses		**5,038,681.14**	9,727,397.14
IV. Total profit (total loss to be listed with "-")		**2,056,697,386.16**	1,227,435,715.46
Less: Income tax expenses		**334,762,770.33**	171,103,088.32
V. Net profit (net loss to be listed with "-")		**1,721,934,615.83**	1,056,332,627.14
(I) Classified according to operating continuity			
1. Net profit from going concern (net loss to be listed with "-")		**1,721,934,615.83**	1,056,332,627.14
2. Net profit from discontinued operations (net loss to be listed with "-")		**–**	–
(II) Classified according to attribution of the ownership			
1. Net profit attributable to owners of the parent company (net losses to be listed with "-")		**1,717,898,111.62**	1,050,891,055.16
2. Minority interest income (net loss to be listed with "-")		**4,036,504.21**	5,441,571.98
VI. Net of tax of other comprehensive income		**46,580,995.75**	85,272,494.20
Net of tax of other comprehensive income attributable to the owners of the parent company		**48,581,566.28**	82,407,042.92
(I) Other comprehensive income that cannot be reclassified into profit or loss		**74,371,741.87**	-15,748,964.76
1. Changes arising from re-measurement of the defined benefit plan		**–**	–
2. Other comprehensive income that cannot be reclassified to profit or loss under the equity		**–**	–
3. Changes in fair value of other equity instrument investments		**74,371,741.87**	-15,748,964.76
4. Changes in fair value of the Company's credit risk		**–**	–
5. Others		**–**	–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

January to June 2026

Item	*Note*	January to June 2026	January to June 2025
(II) Other comprehensive income to be reclassified into profit or loss		-25,790,175.59	98,156,007.68
1. Other comprehensive income that can be reclassified into profit or loss under the equity		–	–
2. Changes in fair value of other debt investments		-12,523,048.44	–
3. Amount of financial assets reclassified into other comprehensive income		–	–
4. Provision for impairment of credit in other debt investments		-7,704,942.50	28,972,896.22
5. Reserve for cash flow hedge (effective parts of cash flow hedging profit or loss)		-1,270,750.00	70,036,659.28
6. Exchange difference arising from foreign currency statements		-4,291,434.65	-853,547.82
7. Others		–	–
Net of tax of other comprehensive income attributable to minority shareholders		-2,000,570.53	2,865,451.28
VII. Total comprehensive income		1,768,515,611.58	1,141,605,121.34
Total comprehensive income attributable to the owners of the parent company		1,766,479,677.90	1,133,298,098.08
Total comprehensive income attributable to minority shareholders		2,035,933.68	8,307,023.26
VIII. Earnings per share:			
(I) Basic earnings per share (RMB/share)		0.77	0.47
(II) Diluted earnings per share (RMB/share)		0.77	0.47

Legal representative: Person in charge of accounting work: Person in charge of the accounting department:

PARENT COMPANY STATEMENT OF PROFIT OR LOSS

January to June 2026

Prepared by: Harbin Electric Company Limited *Unit: RMB*

Item	*Note*	January to June 2026	January to June 2025
I. Operating revenue		**1,413,897,392.94**	1,455,048,614.10
Less: Operating costs		**1,337,489,049.47**	1,449,331,776.97
Taxes and surcharges		**4,398,845.16**	4,328,293.97
Selling expenses		**6,107,316.42**	6,125,517.15
Administrative expenses		**100,369,323.78**	93,602,476.45
R&D expenses		**21,533,852.44**	18,211,351.61
Financial expenses		**22,116,950.74**	23,302,201.59
Including: Interest expenses		**22,866,368.87**	26,905,119.17
Interest income		**3,305,327.12**	6,337,589.35
Add: Other income		**4,325,982.70**	2,729,241.75
Investment income (loss to be listed with "-")		**1,470,223,552.08**	719,032,109.89
Including: Income from investment in associates and joint ventures		**53,094,598.91**	40,459,590.52
Revenue from derecognition of financial assets at amortized cost		**–**	–
Net exposure hedging revenue (loss to be listed with "-")		**–**	–
Income from changes in fair value (loss to be listed with "-")		**–**	–
Credit impairment loss (loss to be listed with "-")		**-22,775,449.32**	-63,969,532.37
Asset impairment loss (loss to be listed with "-")		**-51,155,051.71**	-28,480,394.72
Gain on asset disposal (loss to be listed with "-")		**–**	–
II. Operating profit (loss to be listed with "-")		**1,322,501,088.68**	489,458,420.91
Add: Non-operating revenue		**0.49**	2,000.00
Less: Non-operating expenses		**–**	–
III. Total profit (total loss to be listed with "-")		**1,322,501,089.17**	489,460,420.91
Less: Income tax expenses		**–**	–

PARENT COMPANY STATEMENT OF PROFIT OR LOSS (CONTINUED)

January to June 2026

Item	*Note*	January to June 2026	January to June 2025
IV. Net profit (net loss to be listed with "-")		**1,322,501,089.17**	489,460,420.91
(I) Net profit from going concern (net loss to be listed with "-")		**1,322,501,089.17**	489,460,420.91
(II) Net profit from discontinued operations (net loss to be listed with "-")			
V. Net of tax of other comprehensive income		**–**	-2,352,589.74
(I) Other comprehensive income that cannot be reclassified into profit or loss		**–**	-2,352,589.74
1. Changes arising from re-measurement of the defined benefit plan		**–**	–
2. Other comprehensive income that cannot be reclassified to profit or loss under the equity method		**–**	–
3. Changes in fair value of other equity instrument investments		**–**	-2,352,589.74
4. Changes in fair value of the Company's credit risk		**–**	–
5. Others		**–**	–
(II) Other comprehensive income to be reclassified into profit or loss		**–**	–
1. Other comprehensive income that can be reclassified into profit or loss under the equity method		**–**	–
2. Changes in fair value of other debt investments		**–**	–
3. Amount of financial assets reclassified into other comprehensive income		**–**	–
4. Provision for impairment of credit in other debt investments		**–**	–
5. Reserve for cash flow hedge (effective parts of cash flow hedging profit or loss)		**–**	–
6. Exchange difference arising from foreign currency statements		**–**	–
7. Others		**–**	–
VI. Total comprehensive income		**1,322,501,089.17**	487,107,831.17

Legal representative: Person in charge of accounting work: Person in charge of the accounting department:

CONSOLIDATED STATEMENT OF CASH FLOWS

January to June 2026

Prepared by: Harbin Electric Company Limited *Unit: RMB*

Item	*Note*	**January to June 2026**	January to June 2025
I. Cash flows from operating activities:			
Cash received from sales of goods and provision of services		**26,099,765,537.82**	25,227,691,402.91
Net increase in deposits from customers and placements from banks and other financial institutions		**23,353,391.04**	42,946,235.84
Net increase in placement from other financial institutions		**61,989,065.36**	–
Cash received from interests, fees and commissions		**194,687,676.95**	222,274,505.82
Net increase in repurchase business funds		**100,000,000.00**	-300,000,000.00
Refund of taxes and surcharge		**105,285,064.14**	126,282,034.87
Other cash received relating to operating activities		**1,384,124,983.36**	904,359,184.89
Subtotal of cash inflows from operating activities		**27,969,205,718.67**	26,223,553,364.33
Cash paid for goods and services		**17,877,966,605.40**	16,297,606,745.02
Net increase in loans and advances to customers		**–**	–
Net increase in deposits in the central bank and other financial institutions		**78,173,497.06**	2,772,902,820.78
Cash paid for interests, fees and commissions		**6,857,683.54**	1,571,804.57
Cash paid to and on behalf of employees		**1,745,127,792.60**	1,564,595,891.18
Payments of taxes and surcharges		**1,388,331,006.35**	825,034,852.49
Cash paid for other operating activities		**524,987,886.14**	1,569,747,716.98
Subtotal of cash outflows from operating activities		**21,621,444,471.09**	23,031,459,831.02
Net cash flows from operating activities		**6,347,761,247.58**	3,192,093,533.31

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

January to June 2026

Item	*Note*	**January to June 2026**	January to June 2025
II. Cash flows from investing activities:			
Cash received from the return of investments		**2,110,158,116.90**	1,700,000,000.00
Cash received from the acquirement of investment income		**3,549,485.15**	9,405,651.72
Net cash received from the sale of fixed assets, intangible assets, and other long-term assets		**16,059.00**	5,077,500.00
Net cash received from disposal of subsidiaries and other business entities		**–**	–
Other cash received relating to investing activities		**–**	–
Subtotal of cash inflows from investing activities		**2,113,723,661.05**	1,714,483,151.72
Cash paid to acquire fixed assets, intangible assets, and other long-term assets		**509,876,116.39**	625,426,005.07
Cash paid to acquire investments		**1,906,272,802.31**	2,118,886,300.00
Net cash paid for the acquisition of subsidiaries and other business entities		**–**	–
Other cash paid relating to investment activities		**–**	21,327,013.60
Subtotal of cash outflows from investing activities		**2,416,148,918.70**	2,765,639,318.67
Net cash flows from investing activities		**-302,425,257.65**	-1,051,156,166.95

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

January to June 2026

Item	Note	January to June 2026	January to June 2025
III. Cash flows from financing activities:			
Cash received from absorbing investment		–	–
Including: Cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings		15,823,820.00	618,133,297.00
Other cash received relating to financing activities		–	5,000,000.00
Subtotal of cash inflows from financing activities		15,823,820.00	623,133,297.00
Cash paid for repayment of debts		228,571,000.00	942,827,030.27
Cash paid for distribution of dividends, profit or interest repayment		55,372,007.49	70,711,279.29
Including: Dividends and profits paid by subsidiaries to minority shareholders		7,697,225.85	17,596,584.27
Other cash paid relating to financing activities		4,032,948.55	8,541,547.98
Subtotal of cash outflows from financing activities		287,975,956.04	1,022,079,857.54
Net cash flows from financing activities		-272,152,136.04	-398,946,560.54

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

January to June 2026

Item	*Note*	**January to June 2026**	January to June 2025
IV. Effects from change of exchange rate on cash and cash equivalents		**-110,285,542.12**	-73,247,226.49
V. Net increase in cash and cash equivalents		**5,662,898,311.77**	1,668,743,579.33
Add: Beginning balance of cash and cash equivalents		**14,193,537,323.25**	15,173,753,371.19
VI. Ending balance of cash and cash equivalents		**19,856,435,635.02**	16,842,496,950.52

Legal representative:

Person in charge of accounting work:

Person in charge of the accounting department:

PARENT COMPANY STATEMENT OF CASH FLOWS

January to June 2026

Prepared by: Harbin Electric Company Limited *Unit: RMB*

Item	*Note*	January to June 2026	January to June 2025
I. Cash flows from operating activities:			
Cash received from sales of goods and provision of services		**1,016,624,137.52**	1,370,511,705.81
Refund of taxes and surcharge		**111,762.08**	79,880.65
Other cash received relating to operating activities		**389,424,670.32**	153,413,473.68
Subtotal of cash inflows from operating activities		**1,406,160,569.92**	1,524,005,060.14
Cash paid for goods and services		**1,384,465,053.83**	1,470,285,162.83
Cash paid to and on behalf of employees		**66,211,293.98**	63,872,171.13
Payments of taxes and surcharges		**5,317,540.40**	4,909,557.05
Cash paid for other operating activities		**323,654,482.54**	54,004,994.87
Subtotal of cash outflows from operating activities		**1,779,648,370.75**	1,593,071,885.88
Net cash flows from operating activities		**-373,487,800.83**	-69,066,825.74

PARENT COMPANY STATEMENT OF CASH FLOWS (CONTINUED)

January to June 2026

Item	*Note*	**January to June 2026**	January to June 2025
II. Cash flows from investing activities:			
Cash received from the return of investments		**–**	–
Cash received from the acquirement of investment income		**1,417,441,189.34**	816,607,061.31
Net cash received from the sale of fixed assets, intangible assets, and other long-term assets		**–**	–
Net cash received from disposal of subsidiaries and other business entities		**–**	1.00
Other cash received relating to investing activities		**–**	–
Subtotal of cash inflows from investing activities		**1,417,441,189.34**	816,607,062.31
Cash paid to acquire fixed assets, intangible assets, and other long-term assets		**8,219,642.30**	–
Cash paid to acquire investments		**35,863,040.00**	4,829,070.50
Net cash paid for the acquisition of subsidiaries and other business entities		**–**	–
Other cash paid relating to investment activities		**–**	–
Subtotal of cash outflows from investing activities		**44,082,682.30**	4,829,070.50
Net cash flows from investing activities		**1,373,358,507.04**	811,777,991.81

PARENT COMPANY STATEMENT OF CASH FLOWS (CONTINUED)

January to June 2026

Item	*Note*	**January to June 2026**	January to June 2025
III. Cash flows from financing activities:			
Cash received from absorbing investment		**–**	–
Cash received from borrowings		**–**	17,619,097.00
Other cash received relating to financing activities		**–**	–
Subtotal of cash inflows from financing activities		**–**	17,619,097.00
Cash paid for repayment of debts		**–**	400,000,000.00
Cash paid for distribution of dividends, profit or interest repayment		**22,840,616.66**	26,323,211.68
Other cash paid relating to financing activities		**–**	–
Subtotal of cash outflows from financing activities		**22,840,616.66**	426,323,211.68
Net cash flows from financing activities		**-22,840,616.66**	-408,704,114.68

PARENT COMPANY STATEMENT OF CASH FLOWS (CONTINUED)

January to June 2026

Item	*Note*	**January to June 2026**	January to June 2025
IV. Effects from change of exchange rate on cash and cash equivalents		**37,442.37**	–
V. Net increase in cash and cash equivalents		**977,067,531.92**	334,007,051.39
Add: Beginning balance of cash and cash equivalents		**1,493,407,100.48**	1,345,286,397.60
VI. Ending balance of cash and cash equivalents		**2,470,474,632.40**	1,679,293,448.99

Legal representative:

Person in charge of accounting work:

Person in charge of the accounting department:

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

January to June 2026

Prepared by: Harbin Electric Company Limited

Unit: RMB

Item	January to June 2026														
	Shareholders' equity attributable to the parent company														
		Other equity instruments													
	Share capital	Preferred stocks	Perpetual bonds	Others	Capital reserves	Less: Treasury stocks	Other comprehensive income	Special reserves	Surplus reserves	General risk reserve	Retained earnings	Others	Subtotal	Non-controlling interests	Total shareholders' equity
I. Ending balance of the previous year	2,236,276,000.00	-	-	-	5,491,563,058.67	-	58,895,147.51	62,650,692.88	1,033,247,486.89	-	8,918,841,633.88		17,801,474,019.83	674,790,119.18	18,476,264,139.01
Add: Changes in accounting policies													-		-
Correction of prior errors													-		-
Business combination involving entities under common control															
Others													-		-
II. Beginning balance of the current year	2,236,276,000.00	-	-	-	5,491,563,058.67	-	58,895,147.51	62,650,692.88	1,033,247,486.89	-	8,918,841,633.88		17,801,474,019.83	674,790,119.18	18,476,264,139.01
III. Increase or decrease in the current year (decrease to be listed with "-")	-	-			233,319.35	-	-27,362,767.01	13,201,261.98	-	-	993,255,636.91		979,327,451.23	-8,193,910.10	971,133,541.13
(I) Total comprehensive income							48,581,566.28				1,717,898,111.62		1,766,479,677.90	2,035,933.68	1,768,515,611.58
(II) Capital invested and decreased by shareholders	-	-	-	-	233,319.35	-	-	-	-	-	-		233,319.35	-3,865,274.97	-3,631,955.62
1. Ordinary shares invested by shareholders													-		-
2. Capital invested by holders of other equity instruments													-		-
3. Amount of share-based payment included in shareholders' equity													-		-
4. Others					233,319.35								233,319.35	-3,865,274.97	-3,631,955.62
(III) Profit distribution	-	-	-	-	-	-	-	-	-	-	-800,586,808.00		-800,586,808.00	-7,697,225.85	-808,284,033.85
1. Appropriation to surplus reserves											-		-		-
2. Appropriation to general risk reserve									-		-		-		-
3. Distribution to shareholders											-800,586,808.00		-800,586,808.00	-7,697,225.85	-808,284,033.85
4. Others													-		-
(IV) Internal carry-over in shareholders' equity	-	-	-	-	-	-	-75,944,333.29	-	-	-	75,944,333.29		-	-	-
1. Capital reserve transferred to share capital													-		-
2. Surplus reserve transferred to share capital													-		-
3. Surplus reserve to recover losses													-		-
4. Retained earnings carried forward from changes in defined benefit plan													-		-
5. Retained earnings carried forward from other comprehensive income							-75,944,333.29				75,944,333.29		-		-
6. Others													-		-
(V) Special reserve	-	-	-	-	-	-	-	13,201,261.98	-	-	-		13,201,261.98	1,332,657.04	14,533,919.02
1. Appropriation in the current year								20,561,676.14					20,561,676.14	1,685,273.45	22,246,949.59
2. Use in the current year								-7,360,414.16					-7,360,414.16	-352,616.41	-7,713,030.57
(VI) Others															
IV. Ending balance of the current year	2,236,276,000.00	-	-	-	5,491,796,378.02	-	31,532,380.50	75,851,954.86	1,033,247,486.89	-	9,912,097,270.79		18,780,801,471.06	666,596,209.08	19,447,397,680.14

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

January to June 2026

January to June 2025

Item	Shareholders' equity attributable to the parent company: Share capital	Other equity instruments: Preferred stocks	Other equity instruments: Perpetual bonds	Other equity instruments: Others	Capital reserves	Less: Treasury stocks	Other comprehensive income	Special reserves	Surplus reserves	General risk reserve	Retained earnings	Others	Subtotal	Non-controlling interests	Total shareholders' equity
I. Ending balance of the previous year	2,236,276,000.00	-	-	-	5,491,563,058.67	-	-102,281,657.96	60,940,261.82	973,010,437.91	-	6,823,254,033.56		15,482,762,134.00	707,099,094.72	16,189,861,228.72
Add: Changes in accounting policies													-		-
Correction of prior errors													-		-
Business combination involving entities under common control															
Others													-		-
II. Beginning balance of the current year	2,236,276,000.00	-	-	-	5,491,563,058.67	-	-102,281,657.96	60,940,261.82	973,010,437.91	-	6,823,254,033.56		15,482,762,134.00	707,099,094.72	16,189,861,228.72
III. Increase or decrease in the current year (decrease to be listed with "-")	-	-	-	-	-	-	84,759,632.66	14,279,184.27	-	-	540,903,813.42		639,942,630.35	-8,255,492.56	631,687,137.79
(I) Total comprehensive income							82,407,042.92				1,050,891,055.16		1,133,298,098.08	8,307,023.26	1,141,605,121.34
(II) Capital invested and decreased by shareholders	-	-	-	-	-	-	-	-	-	-	-		-	-	-
1. Ordinary shares invested by shareholders													-		-
2. Capital invested by holders of other equity instruments													-		-
3. Amount of share-based payment included in shareholders' equity													-		-
4. Others													-		-
(III) Profit distribution	-	-	-	-	-	-	-	-	-	-	-507,634,652.00		-507,634,652.00	-17,596,584.27	-525,231,236.27
1. Appropriation to surplus reserves									-		-		-		-
2. Appropriation to general risk reserve									-				-		-
3. Distribution to shareholders											-507,634,652.00		-507,634,652.00	-17,596,584.27	-525,231,236.27
4. Others													-		-
(IV) Internal carry-over in shareholders' equity	-	-	-	-	-	-	2,352,589.74	-	-	-	-2,352,589.74		-	-	-
1. Capital reserve transferred to share capital													-		-
2. Surplus reserve transferred to share capital													-		-
3. Surplus reserve to recover losses													-		-
4. Retained earnings carried forward from changes in defined benefit plan													-		-
5. Retained earnings carried forward from other comprehensive income							2,352,589.74				-2,352,589.74		-		-
6. Others											-		-		-
(V) Special reserve	-	-	-	-	-	-	-	14,279,184.27	-	-	-		14,279,184.27	1,034,068.45	15,313,252.72
1. Appropriation in the current year								19,847,696.21					19,847,696.21	1,408,737.96	21,256,434.17
2. Use in the current year								-5,568,511.94					-5,568,511.94	-374,669.51	-5,943,181.45
(VI) Others															
IV. Ending balance of the current year	2,236,276,000.00	-	-	-	5,491,563,058.67	-	-17,522,025.30	75,219,446.09	973,010,437.91	-	7,364,157,846.98		16,122,704,764.35	698,843,602.16	16,821,548,366.51

Legal representative: Person in charge of accounting: Person in charge of the accounting firm:

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

January to June 2026

Prepared by: Harbin Electric Company Limited

Unit: RMB

Item	January to June 2026											
		Other equity instruments										
	Share capital	Preferred stocks	Perpetual bonds	Others	Capital reserves	Less: Treasury stocks	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Others	Total shareholders' equity
I. Closing balance of the previous year	2,236,276,000.00	-	-	-	4,796,067,100.48	-	-	-	890,437,636.72	902,405,840.97		8,825,186,578.17
Add: Changes in accounting policies												-
Correction of prior errors												-
Others												-
II. Beginning balance of the current year	2,236,276,000.00	-	-	-	4,796,067,100.48	-	-	-	890,437,636.72	902,405,840.97		8,825,186,578.17
III. Increase or decrease in the current year (decrease to be listed with "-")	-	-	-	-	-	-	-	-	-	521,914,281.17		521,914,281.17
(I) Total comprehensive income										1,322,501,089.17		1,322,501,089.17
(II) Capital invested and decreased by shareholders	-	-	-	-	-	-	-	-	-	-		-
1. Invested capital of shareholders												-
2. Capital invested by holders of other equity instruments												-
3. Amount of share-based payment included in shareholders' equity												-
4. Others												
(III) Profit distribution	-	-	-	-	-	-	-	-	-	-800,586,808.00		-800,586,808.00
1. Appropriation to surplus reserves									-	-		-
2. Distribution to shareholders										-800,586,808.00		-800,586,808.00
3. Others												-
(IV) Internal carry-over in shareholders' equity	-	-	-	-	-	-	-	-	-	-		-
1. Capital reserves converting into capital												-
2. Transfer from surplus reserve to paid-in capital												-
3. Surplus reserve to recover losses												-
4. Retained earnings carried forward from changes in defined benefit plan												-
5. Retained earnings carried forward from other comprehensive income												-
6. Others												-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-		-
1. Appropriation in the current year												-
2. Use in the current year												-
(VI) Others												
IV. Ending balance of the current year	2,236,276,000.00	-	-	-	4,796,067,100.48	-	-	-	890,437,636.72	1,424,320,122.14		9,347,100,859.34

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY (CONTINUED)

January to June 2026

	January to June 2025											
		Other equity instruments										
Item	Share capital	Preferred stocks	Perpetual bonds	Others	Capital reserves	Less: Treasury stocks	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Others	Total shareholders' equity
I. Closing balance of the previous year	2,236,276,000.00				4,796,067,100.48				830,200,587.74	870,259,641.86		8,732,803,330.08
Add: Changes in accounting policies												-
Correction of prior errors												-
Others												-
II. Beginning balance of the current year	2,236,276,000.00	-	-	-	4,796,067,100.48	-	-	-	830,200,587.74	870,259,641.86		8,732,803,330.08
III. Increase or decrease in the current year (decrease to be listed with "-")	-	-	-	-	-	-	-	-	-	-20,526,820.83		-20,526,820.83
(I) Total comprehensive income							-2,352,589.74			489,460,420.91		487,107,831.17
(II) Capital invested and decreased by shareholders	-	-	-	-	-	-	-	-	-			-
1. Invested capital of shareholders												-
2. Capital invested by holders of other equity instruments												-
3. Amount of share-based payment included in shareholders' equity												-
4. Others												-
(III) Profit distribution	-	-	-	-	-	-	-	-	-	-507,634,652.00		-507,634,652.00
1. Appropriation to surplus reserves										-		-
2. Distribution to shareholders										-507,634,652.00		-507,634,652.00
3. Others												-
(IV) Internal carry-over in shareholders' equity	-	-	-	-	-	-	2,352,589.74	-	-	-2,352,589.74		-
1. Capital reserves converting into capital												-
2. Transfer from surplus reserve to paid-in capital												-
3. Surplus reserve to recover losses												-
4. Retained earnings carried forward from changes in defined benefit plan												-
5. Retained earnings carried forward from other comprehensive income							2,352,589.74			-2,352,589.74		-
6. Others												-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-		-
1. Appropriation in the current year												-
2. Use in the current year												-
(VI) Others		-	-	-		-						-
IV. Ending balance of the current year	2,236,276,000.00	-	-	-	4,796,067,100.48	-	-	-	830,200,587.74	849,732,821.03		8,712,276,509.25

Legal representative: Person in charge of accounting: Person in charge of the accounting firm:

NOTES TO THE FINANCIAL STATEMENTS

From January 1, 2026 to June 30, 2026
(Monetary unit for the Notes to the Financial Statements is RMB unless otherwise stated)

I. COMPANY PROFILE

Harbin Electric Company Limited (hereinafter referred to as "the Company", collectively referred to as "the Group" when including subsidiaries) was formed through the restructuring of the former state-owned enterprise Harbin Electric Corporation (hereinafter referred to as "HE") and its affiliated companies former Harbin Electric Machinery Works, Harbin Boiler Works, and Harbin Turbine Works. The Company was registered and established in Harbin on October 6, 1994, and was approved for restructuring into a joint stock company listed in Hong Kong by the former State Commission for Restructuring the Economic System on November 5, 1994.

The Company's original total share capital was RMB1,189,151,000, with HE holding RMB720,000,000, accounting for 60.55% of the total share capital, and H-shares issued overseas amounting to RMB469,151,000, accounting for 39.45% of the total share capital. The Company began trading on The Stock Exchange of Hong Kong Limited on December 16, 1994. According to the resolutions of the general meeting and the approval of the China Securities Regulatory Commission (CSRC), and upon the approval of The Stock Exchange of Hong Kong Limited, the Company placed a total of 93,830,000 H-shares in 2005, comprising 85,300,000 new shares and a reduction of 8,530,000 state-owned shares. After the completion of this H-share placement, the Company's share capital was changed to RMB1,274,451,000. According to the resolutions of the Company's 2005 annual general meeting and the approval of the CSRC (Document ZJGHZ [2007] No. 6), the Company issued 112,590,000 additional H-shares in February 2007, including 102,355,000 new shares and a reduction of 10,235,000 shares by the state-owned shareholder. Based on the reply from the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) (Document GZCQ [2006] No. 1492), during the placement of H-shares, the Company transferred 10,235,000 state-owned legal person shares held by HE to the National Council for Social Security Fund. On March 2, 2007, the Company received RMB102,355,000.00 of

I. COMPANY PROFILE (CONTINUED)

new share capital paid in cash by overseas fundraising shareholders, increasing the Company's registered capital and share capital to RMB1,376,806,000.00. This total comprised state-owned legal person shares of RMB701,235,000.00, accounting for 50.93% of the total share capital, and H-shares issued overseas of RMB675,571,000.00, accounting for 49.07% of the total share capital. On December 1, 2017, a proposal was passed at the general meeting to approve the issuance of new domestic shares to HE, including 329,717,000 new shares. On December 6, 2017, the Company received RMB329,717,000.00 of new share capital paid in cash by HE, increasing the Company's registered capital and share capital to RMB1,706,523,000.00. This total comprised state-owned legal person shares of RMB1,030,952,000.00, accounting for 60.41% of the total share capital, and H-shares issued overseas of RMB675,571,000.00, accounting for 39.59% of the total share capital.

On April 12, 2023, a proposal was passed at the general meeting to approve the issuance of new domestic shares to HE, including 529,753,000 new shares. On September 20, 2023, the Company received RMB529,753,000.00 of new share capital paid in cash by HE, increasing the Company's share capital to RMB2,236,276,000.00. This total comprised state-owned legal person shares of RMB1,560,705,000.00, accounting for 69.79% of the total share capital, and H-shares issued overseas of RMB675,571,000.00, accounting for 30.21% of the total share capital.

As of June 30, 2026, the Company has a total of 2,236,276,000 shares of share capital and a registered capital of RMB2,236,276,000.00.

The Company operates within the generator and generating set manufacturing industry, specializing in the production and sales of power generation equipment and general contracting of power station projects.

I. COMPANY PROFILE (CONTINUED)

Current major business segments include the manufacturing of complete sets of equipment and auxiliary machines for large-scale thermal power, hydropower, and nuclear power; power station turnkey projects; and the development, design, and manufacturing of leading products such as marine power plants and electric drive devices.

The parent company of the Company is Harbin Electric Corporation, and the ultimate controlling party is the SASAC.

The financial statements have been approved for release by the Board of Directors of the Company on August 26, 2026.

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

A total of 39 subsidiaries were included in the scope of the consolidated financial statements for the current period, including 13 second-tier subsidiaries, 23 third-tier subsidiaries, and 3 fourth-tier subsidiaries. The second-tier subsidiaries include:

Subsidiary name	Type of subsidiary	Tier	Shareholding *(%)*	Voting right proportion *(%)*
Harbin Electric Corporation Finance Company Limited	2	2	91.00	91.00
Harbin Boiler Company Limited	1	2	100.00	100.00
Harbin Turbine Company Limited	1	2	100.00	100.00
HE Harbin Power Plant Valve Company Limited	1	2	45.00	45.00
Harbin Electric Machinery Company Limited	1	2	100.00	100.00

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Subsidiary name	Type of subsidiary	Tier	Shareholding (%)	Voting right proportion (%)
Harbin Electric Corporation (QHD) Heavy Equipment Company Limited	1	2	100.00	100.00
Harbin Electric International Company Limited	1	2	100.00	100.00
Harbin Electric Power Technology & Trade Co., Ltd.	1	2	100.00	100.00
Harbin Electric Electrical Company Limited	1	2	100.00	100.00
Harbin Electric Corporation Shanxi Environmental Protection Engineering Company Limited	1	2	100.00	100.00
HE Financial Leasing (Tianjin) Co., Ltd.	2	2	80.00	80.00
Harbin Electric Science and Technology Company Limited	1	2	100.00	100.00
Harbin Electric Materials Company Limited	1	2	100.00	100.00

Type of enterprise: 1. domestic non-financial subsidiary; 2. domestic financial subsidiary; 3. overseas subsidiary; 4. public institution.

III. BASIS OF PREPARATION FOR FINANCIAL STATEMENTS

1. Basis of preparation

The Financial Statements of the Group are prepared on a going concern basis, as per the actually incurred transactions and events, the Accounting Standards for Business Enterprises issued by the Ministry of Finance and its application guidelines, interpretations and other relevant provisions thereof (hereinafter collectively referred to as "ASBEs"), and disclosure requirements in Preparation Rules for Information Disclosures by Companies Offering Shares to the Public No. 15 – General Provisions on Financial Reports (revised in 2023) issued by China Securities Regulatory Commission (CSRC), Hong Kong Companies Ordinance and Listing Rules of the Stock Exchange of Hong Kong.

2. Going concern

It is believed reasonable that the Group's financial statements have been prepared based on going concern for recent profit-making history and sourced financial support.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Statement of Compliance with ASBEs

The financial statements prepared by the Company conform to the requirements of ASBEs and truly, accurately, and completely reflect the financial position of the Company and the Group as of June 30, 2026, as well as the operating results and the cash flows from January to June 2026.

2. Accounting period

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

3. Operating cycle

The business cycle of the Group is 12 months.

4. Bookkeeping currency

Except for Harbin Electric International (Hong Kong) Holdings Company Limited and Hassyan International Investment Limited, subsidiaries of the Company, which use the US Dollar (USD) as their bookkeeping currency, the Company and its other subsidiaries use Renminbi (RMB) as their bookkeeping currency.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Bookkeeping basis and valuation principle

The Company takes the accrual basis as its bookkeeping base. When measuring the accounting elements, the Company generally employs the historical cost. If replacement cost, net realizable value, present value or fair value, and other attributes are employed in measurement according to the provisions of accounting standards, the Company will give explanations particularly.

6. Accounting method for business combinations under and not under common control

The assets and liabilities acquired by the Group, as the combining party, from the business combination under common control should be measured based on the carrying amount in the ultimate controller's consolidated statements of the combined party on the combination date. The difference between the carrying amount of the net assets acquired and that of the paid combination consideration shall be used to adjust the capital reserves. Where the capital reserves are insufficient for offsetting, retained earnings shall be adjusted.

The identifiable assets, liabilities, and contingent liabilities acquired from the acquiree in the business combination not under common control are measured at fair value on the acquisition date. The combination cost is the sum of fair value of cash or non-cash assets paid, liabilities issued or assumed, equity securities issued, etc. on the acquisition date for obtaining the control right of the acquiree and various direct expenses in the business combination (in the business combination realized step by step through several

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Accounting method for business combinations under and not under common control (Continued)

transactions, the combination cost is the sum of the cost for each single transaction). The excess of the cost of the combination over the Group's share of the fair value of the identifiable net assets of the acquiree obtained by the Group in the combination shall be recognized as goodwill; if the combination cost is less than the Group's share of the fair value of the identifiable net assets of the acquiree obtained in the combination, the fair value of various identifiable assets, liabilities and contingent liabilities obtained in the combination and the fair value of non-cash assets or equity securities issued in the consideration of combination shall be re-checked first. If the rechecked combination cost is still less than the Group's share of the fair value of identifiable net assets of the acquiree obtained in the combination, the balance shall be included in consolidated current non-operating revenue.

7. Determination of control and preparation of consolidated financial statements

The consolidation scope of the Group's consolidated financial statements is determined on a control basis, including the Company and all subsidiaries under its control, which further includes divisible parts in enterprises and investees, and structured entities under their control. The Group's criterion for identifying control is that the Group has the power over the investee, and can enjoy variable returns through participating in related activities of the investee, and is able to influence the amount of return with the power over the investee.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

7. Determination of control and preparation of consolidated financial statements (Continued)

In preparing the consolidated financial statements, where the accounting policy or accounting period adopted by subsidiaries is inconsistent with that adopted by the Company, the financial statements of subsidiaries shall be adjusted according to the accounting policy or accounting period of the Company.

All material internal transactions, balances, and unrealized profits within the scope of consolidation shall be eliminated during the preparation of consolidated financial statements. Shares in owners' equity of subsidiaries but not attributable to the parent company, net profit or loss for the current period, other comprehensive income, and shares attributable to non-controlling interests in total comprehensive income shall be listed in consolidated financial statements as "Non-controlling interests, non-controlling shareholder's profit or losses, other comprehensive income attributed to the non-controlling shareholder and total comprehensive income attributed to the non-controlling shareholder" respectively.

For subsidiaries acquired in the business combination under common control, their operating results and cash flows are included in the consolidated financial statements from the beginning of the current period of the combination. During the preparation of comparative consolidated financial statements, relevant items of the financial statements of the previous year shall be adjusted. It shall be deemed that the reporting entity formed after the combination has existed since the beginning of control by the ultimate controller.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

7. Determination of control and preparation of consolidated financial statements (Continued)

Under the circumstance that the equity of the investee is obtained under common control through multiple transactions step by step, which results in a business combination, supplementary disclosure to treatment methods in consolidated financial statements shall be made in the reporting period for acquiring the control. For example, if equity of the investee under common control is obtained step by step through several transactions, which results in a business combination, such equity shall be adjusted in the preparation of consolidated financial statements as if it might have existed as the current state from the time when the ultimate controller takes control. When preparing comparative accounts, relevant assets and liabilities of the acquiree are included in comparative accounts of consolidated financial statements of the Group according to the restriction that the time above shall be not earlier than the time when the Group and the acquiree are under the common control of the ultimate controller, moreover, increased net assets resulting from the combination are adjusted as relevant items under owners' equity. In order to avoid repeated calculation of value of net assets of the combined party, the long-term equity investments held by the Group before the combination is achieved, the changes in relevant profit or loss, other comprehensive income and other net assets that have been recognized in the period from the later date, when the long-term equity investments are acquired and when the Group and the combined party are under the final control of the same party, to the combination date, shall respectively be applied to write down the beginning retained earnings and current profit or loss during the period of comparative statement.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

7. Determination of control and preparation of consolidated financial statements (Continued)

As for subsidiaries acquired by business combination not under common control, operating results and cash flows shall be incorporated into consolidated financial statements from the date when the Group takes control. In preparing the consolidated financial statements, the financial statements of the subsidiaries are adjusted based on the fair value of all identifiable assets, liabilities, and contingent liabilities recognized on the acquisition date.

As to the equity of the investee not under common control obtained step by step through multiple transactions and the business combination finally formed, when preparing the consolidated statements, the equity held by the acquiree before the acquisition date shall be remeasured according to the fair value of the equity on the acquisition date, the difference between the fair value and its carrying amount shall be included in the current investment income. If the relevant equity held by the acquiree before the acquisition date is involved in other comprehensive income and changes in other owners' equity other than the net profit and loss, other comprehensive income and profit distribution under the accounting of equity method, it shall be transferred as the investment profit and loss in the current period of the acquisition date, except for other comprehensive income incurred by the changes in the net liabilities or net assets due to the investee's remeasurement of the defined benefit plan.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

7. Determination of control and preparation of consolidated financial statements (Continued)

In the situation when the Group partially disposes of long-term equity investments in subsidiaries without losing control rights, in the consolidated financial statements, the difference between the disposal price and the share of net assets enjoyed correspondingly in the subsidiaries measured constantly since the acquisition date or combination date corresponding to the disposed long-term equity investments shall be adjusted to capital premium or share premium. If the capital reserves are insufficient to offset, the retained earnings shall be adjusted.

Where control right over the investee is lost due to the disposal of partial equity investment of the Group or other reasons, the residual equity will be recalculated based on the fair value thereof on the day the control is lost when preparing the consolidated financial statements. The balance between the sum of consideration acquired from disposal of equity interest and the fair value of the residual equity interest and the share of net assets enjoyed correspondingly in the original subsidiaries measured constantly based on the original shareholding proportion from the acquisition date or combination date, shall be recognized as the profit or loss on investment of the period at the loss of control and the goodwill shall be offset. Other comprehensive income in connection with equity investment of the original subsidiaries shall be transferred to the profit or loss on investment of the period at the loss of control.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

7. Determination of control and preparation of consolidated financial statements (Continued)

When the Group disposes of equity investment of the subsidiaries step by step through multiple transactions till losing the control right, if various transactions from the disposal of equity investment of subsidiaries till losing the control right belong to a package deal, accounting treatment shall be conducted for each transaction as the transaction that disposes of a subsidiary with the loss of control right. Nonetheless, before the loss of control right, the balance between each disposal price and the net asset share of such subsidiary enjoyed correspondingly in investment disposal is recognized in other comprehensive income in the consolidated financial statements and transferred into the current profit or loss on investment when losing control right.

8. Classification of joint arrangements and accountant treatment method of joint operations

(1) Classification of joint arrangements

The Group classifies joint arrangements into joint operations and joint ventures based on the structure, legal form, and provisions of the joint arrangement and other relevant facts and situations.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Classification of joint arrangements and accountant treatment method of joint operations (Continued)

(1) Classification of joint arrangements (Continued)

A joint arrangement that is not established through a separate legal entity is classified as a joint operation; a joint arrangement that is established through a separate legal entity is generally classified as a joint venture. However, a joint arrangement shall be classified as a joint operation where there is conclusive evidence that any of the following conditions is met and such classification is consistent with applicable laws and regulations:

1) The legal form of the joint arrangement indicates that the joint operators have rights to the assets and obligations for the liabilities relating to the arrangement.

2) The contract terms of the joint arrangement specify that the joint operators have rights to the assets and obligations for the liabilities relating to the arrangement.

3) Other relevant facts and circumstances indicate that the joint operators have rights to the assets and obligations for the liabilities, relating to the arrangement. For example, the joint operators have rights to almost all the output relating to the arrangement and settlement of the liabilities, which continuously depend on support from the joint operators.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Classification of joint arrangements and accountant treatment method of joint operations (Continued)

(2) Accounting treatment methods for joint operations

The Group recognizes the following items related to the Group among the interest shares of joint operation, and performs accounting treatment in accordance with relevant provisions of ASBEs:

1) Assets held solely and its share of jointly held assets;

2) Liabilities incurred solely and its share of jointly incurred liabilities;

3) Income from the sale of its share of the outputs in the joint operation;

4) Its share of revenue from the sale of output by the joint operation;

5) Expenses incurred solely and its share of jointly incurred expenses.

Where the Group invests assets (except that the assets form a business) in or sells them to the joint operation, before the joint operation sells the assets to a third party, only the portion of profit/loss arising from the transaction attributable to other participants of the joint operation shall be recognized. If the asset invested or sold incurs an impairment loss as specified in the Accounting Standards for Business Enterprises No. 8 – Impairment of Assets, the Group shall fully recognize the loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Classification of joint arrangements and accountant treatment method of joint operations (Continued)

(2) Accounting treatment methods for joint operations (Continued)

Where the Group buys an asset (except that the assets form a business) from a joint operation, before it sells the asset to a third party, only the portion of profit/loss incurred in the transaction attributable to other parties to the joint operation shall be recognized. If the asset bought incurs an impairment loss as specified in the Accounting Standards for Business Enterprises No. 8 – Asset Impairment, the Group shall recognize the loss based on its share.

The Group does not have joint control over the joint operation. If the Group is entitled to relevant assets of the joint operation and assumes the relevant liabilities of the joint operation, accounting treatment shall be performed in accordance with the principles above; otherwise, accounting treatment will be performed in accordance with relevant provisions of Accounting Standards for Business Enterprises.

9. Cash and cash equivalents

Cash shown in the cash flow statement of the Group refers to both cash on hand and the deposit held in bank available for payment at any time. Cash equivalents in the Cash Flow Statement refer to investments with a term of not more than 3 months and high liquidity, and are easily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Foreign currency transactions and foreign exchange translation for financial statements

(1) Foreign currency transaction

At the initial recognition of foreign currency transactions, the spot exchange rate at the transaction date is used as the exchange rate to translate foreign currencies into RMB for accounting. On the balance sheet date, the foreign currency monetary items shall be translated at the spot exchange rate, and the exchange difference incurred therefrom shall be included in the current profit or loss, except that the exchange difference incurred due to special foreign currency borrowings related to the acquisition or construction of assets that meet the capitalization conditions shall be handled under the principle of capitalization of borrowing costs. Foreign currency non-monetary items measured with historical cost are still translated at the spot exchange rate at the transaction date, without changing the amount in the bookkeeping currency. For foreign currency non-monetary items measured at fair value, the spot exchange rate at the date of determination of fair value shall be adopted for translation, and the resulting exchange difference shall be recorded as a gain or loss on changes in fair value in the current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Foreign currency transactions and foreign exchange translation for financial statements (Continued)

(2) Translation of foreign currency financial statements

The asset items and liability items in the balance sheet shall be translated at the spot rate of the balance sheet date; the owners' equity items, except for "undistributed profit," shall be translated at the spot rate when incurred. Revenue and expense items in the income statement are translated using the average exchange rate of the period when the transaction occurs. The translation difference of foreign currency financial statements generated according to the above translation shall be included in other comprehensive income. Foreign currency cash flow is translated using the average exchange rate of the period of cash flow transactions. The effect of exchange rate fluctuations on cash shall be separately listed in the cash flow statement.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments

(1) Recognition and derecognition of financial instruments

A financial instrument is recognized as a financial asset or liability when the Group becomes a party thereto.

The financial assets are derecognized, i.e., by transferring previously recognized financial assets from the balance sheet, when 1) the right to receive the cash flow of the financial assets has expired; or 2) the right to receive the cash flow of the financial assets has been transferred, or an obligation to pay the collected cash flow to a third party in full and on time has been undertaken under a "pass-through arrangement," and almost all risks and rewards related to the ownership of financial assets are substantially transferred, or although almost all risks and rewards related to the ownership are neither transferred nor retained in substance, the control over such financial assets is waived.

A financial liability is derecognized if its responsibility has been fulfilled, canceled, or expired. If the existing financial liability is replaced by another one with almost completely different terms by the same creditor, or almost all the terms of the existing liability are substantially modified, such replacement or modification shall be treated as derecognition of the original liability and recognition of a new liability, and the difference shall be included in the current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(1) Recognition and derecognition of financial instruments (Continued)

Financial assets sold and purchased conventionally are subject to recognition and derecognition according to accounting on the transaction date.

(2) Classification and measurement of financial assets

At initial recognition, according to the Group's business mode of financial assets management and the contractual cash flow characteristics of financial assets, the Group classifies financial assets into financial assets measured at amortized cost, financial assets at fair value through other comprehensive income (FVTOCI), and financial assets at fair value through profit or loss (FVTPL). The Group reclassifies all affected financial assets only when changing the business mode of financial assets management.

When judging the business mode, the Group considers the way the company evaluates and reports to key executives the performance of financial assets, the risks affecting the performance of these financial assets and their management methods, as well as the way relevant business management personnel are paid. In evaluating whether its objective is to collect contractual cash flows, the Group needs to analyze and judge the reasons, time, frequency, and value of selling financial assets before the maturity date.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(2) Classification and measurement of financial assets (Continued)

When judging the characteristics of contractual cash flows, the Group needs to judge whether the contractual cash flows are only payments of the principal and the interest of the outstanding principal. This includes whether there is a significant difference from the base cash flows in cases of correction of the time value of money and whether the fair value of the early repayment characteristics is reasonably small for financial assets with early repayment characteristics.

At the time of initial recognition, financial assets are measured at fair value. However, if the accounts receivable or notes receivable arising from selling goods or providing services do not contain a major financing component or do not consider the financing component of more than one year, such financial assets are initially measured at transaction price.

For financial assets measured at FVTPL, related transaction expenses shall be directly included in the current profit or loss; the related transaction expenses of other financial assets shall be included in the initial recognition amount.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(2) Classification and measurement of financial assets (Continued)

Subsequent measurement of financial assets depends on their classification:

1) Financial assets measured at amortized cost

Financial assets that meet the following conditions simultaneously are classified as the financial assets measured at amortized cost: (i) the business mode of the financial assets management takes the collection of contractual cash flow as the objective. (ii) The contract terms of the financial assets stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount. The Company's financial assets measured at amortized cost include accounts receivable, other receivables, financial assets held under resale agreements, long-term receivables (including the portion due within one year), and loans and advances.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(2) Classification and measurement of financial assets (Continued)

2) Debt investments at FVTOCI

Financial assets that meet the following conditions simultaneously are classified as the financial assets at FVTOCI: (i) The business mode of the financial assets management takes the collection of contractual cash flow and selling the financial assets as the objectives. (ii) The contract terms of the financial assets stipulate that the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount. The interest income of the financial assets is recognized using the effective interest method. Changes in fair value are included in other comprehensive income, except for interest income, impairment losses, and exchange differences, which are included in current profit or loss. When recognition of the financial assets is terminated, the accumulated gains or losses previously booked into other comprehensive income shall be transferred from other comprehensive income and recorded into current profit or loss. The Company's debt investments at FVTOCI mainly include other debt investments.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(2) Classification and measurement of financial assets (Continued)

3) Equity instrument investments at FVTOCI

The Group irrevocably designates some non-trading equity instrument investments as financial assets at FVTOCI. This designation shall not be revoked once made. The Group only includes relevant dividend income (except for those recovered as part of investment cost) in the current profit or loss. Subsequent changes in fair value are included in other comprehensive income, and no provision for impairment is required. When the financial assets are derecognized, the accumulative gain or loss previously included in other comprehensive income shall be transferred from other comprehensive income and included in retained earnings. The Group's financial assets under this classification consist of other equity instrument investments.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(2) Classification and measurement of financial assets (Continued)

4) Financial assets at FVTPL

The Group financial assets other than those classified as financial assets measured at amortized cost and those classified or designated as financial assets at FVTOCI as financial assets at FVTPL. These financial assets are subsequently measured at the fair value and the changes in fair value are included in the current profit or loss except for those related to hedge accounting. The Group's financial assets under this classification mainly include financial assets held for trading and other non-current financial assets.

The financial assets will be classified as the financial assets at FVTPL if they are recognized by the Group in the business combination not under common control and constituted by the contingent consideration.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(3) Classification, recognition and measurement of financial liabilities

Except for the issued financial guarantee contracts, loan commitments to lend at a rate lower than market interest rates, and financial liabilities arising from the transfer of financial assets that do not meet the conditions for derecognition or continuous involvement in the transferred financial assets, the financial liabilities of the Group are classified into financial liabilities at FVTPL and financial liabilities measured at amortized cost at initial recognition. Related transaction expenses of financial liabilities at FVTPL are directly included in the current profit or loss while related transaction expenses of financial liabilities measured at amortized cost are included in their initially recognized amount.

Subsequent measurement of financial liabilities depends on their classification:

1) Financial liabilities measured at amortized cost

The financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(3) Classification, recognition and measurement of financial liabilities (Continued)

2) Financial liabilities at FVTPL

Financial liabilities at FVTPL (including derivatives falling under financial liabilities) include financial liabilities held for trading and financial liabilities designated as financial liabilities at FVTPL at initial recognition. Financial liabilities held for trading (including derivative instruments belonging to financial liabilities) are subsequently measured at fair value, and all changes in fair value are included in the current profit or loss, except when they relate to hedge accounting. Financial liabilities designated to be measured at FVTPL are subsequently measured at fair value. Changes in fair value caused by changes in the Group's own credit risk are included in other comprehensive income, and other changes in fair value are included in the current profit or loss; if including changes of fair value caused by the Group's own credit risk in other comprehensive income will cause or expand accounting mismatch in the profit or loss, the Group will include all changes in fair value (including the amount impacted by changes in its own credit risk) in the current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(4) Impairment of financial instruments

Based on the expected credit loss, the Group conducts impairment treatment and recognizes loss provisions for financial assets measured at amortized cost, debt investments measured at FVTOCI, contract assets, and lease receivables.

Expected credit loss (ECL) refers to the weighted average of credit losses of financial instruments weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable according to the contract and all expected cash flows receivable, discounted at the original effective interest rate, that is, the present value of all cash shortages of the Group. The factors reflected by the Group's method of measuring ECLs of financial instruments include 1) unbiased probability-weighted average amount determined by evaluating a series of possible outcomes; 2) currency time value; and 3) reasonable and evidenced information about past events, current conditions, and future economic forecasts obtained on the balance sheet date without paying unnecessary extra costs or efforts.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(4) Impairment of financial instruments (Continued)

The Group evaluates the ECLs of financial instruments based on individual items and portfolios. When evaluating on a portfolio basis, the Group classifies financial instruments into different groups based on their common credit risk characteristics. The common credit risk characteristics used by the Group include type of financial instruments, credit risk rating, geographical location of the debtor, industry engaged in by the debtor, overdue information, ageing of receivables, and guarantee.

The Group adopts the ECL model to assess the impairment of financial instruments. In doing so, material judgment and estimate are required and all reasonable and evidence-based information, including forward-looking information, shall be considered. When making these judgments and estimates, the Group infers the expected changes of debtor's credit risk based on historical repayment data in combination with economic policies, macroeconomic indicators, industry risks, and other factors. Different estimates may affect the accrual for provision for impairment, and the accrued provision for impairment may not be equal to the actual amount of impairment loss in the future.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(4) Impairment of financial instruments (Continued)

1) Impairment assessment method of receivables

For the accounts receivable, notes receivable, and other receivables that do not contain material financing components formed from daily business activities such as selling goods and providing labor services, the Group uses simplified measurement methods to measure the loss provision according to the amount of the lifetime ECL.

(i) Portfolio category and determination basis of accounts receivable

For accounts receivable, except for determining their credit loss separately for the accounts with a material single amount, the Group, generally based on common credit risk characteristics portfolio, prepares a comparison table of ageing of accounts receivable and lifetime ECL rate to calculate ECLs by considering the elements that should be reflected in the measurement of ECLs and referring to the experience in historical credit loss and in combination with the current situation and the forecast of future economic situation.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(4) Impairment of financial instruments (Continued)

1) Impairment assessment method of receivables (Continued)

(i) Portfolio category and determination basis of accounts receivable (Continued)

Based on the ageing of accounts receivable, guarantee, geographical location of the counterparty, nature of payment, credit risk exposure, historical payment collection, and other information, the Group divides the portfolio according to the similarity and correlation of credit risk characteristics. For receivables and contract assets, the Group judges ageing and counterparty relationship as the main influencing factors of its credit risk. Therefore, the Group evaluates its ECLs based on the ageing portfolio and counterparty relationship.

The Group calculates the ageing of trade receivables from the date of revenue recognition, and the ageing of quality guarantee deposit receivables from the end of the guarantee period.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(4) Impairment of financial instruments (Continued)

1) Impairment assessment method of receivables (Continued)

(i) Portfolio category and determination basis of accounts receivable (Continued)

The portfolio of accounts receivable of the Group is divided as follows:

Portfolio by credit risk characteristics	**Expected loss provision ratio *(%)***
Ageing portfolio	Accrual according to the estimated loss rate in the whole duration
Portfolio of related parties within HE's consolidation scope	No provision for bad debts with reference to historical credit loss experience

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(4) Impairment of financial instruments (Continued)

1) Impairment assessment method of receivables (Continued)

(i) Portfolio category and determination basis of accounts receivable (Continued)

The comparison table of ageing of accounts receivable and lifetime expected credit loss rate is as follows:

Ageing	**Provision *(%)***
Within 1 year	0.00-5.00
1-2 years	5.00-25.00
2-3 years	50.00
3-4 years	80.00
4-5 years	80.00
More than 5 years	100.00

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(4) Impairment of financial instruments (Continued)

1) Impairment assessment method of receivables (Continued)

(ii) Portfolio category and determination basis of notes receivable

Based on the acceptor's credit risk of notes receivable as a common risk characteristic, the Group divides them into bank acceptance bill portfolio and commercial acceptance bill portfolio, and accrues provision for losses according to the expected loss rate.

(iii) Contract assets

The contract assets of the Group mainly include quality guarantee deposits and costs incurred on completed but unsettled projects. No provision for bad debts is made for quality guarantee deposits during the warranty period, while provision for bad debts for costs incurred on completed but unsettled projects is recognized on an individual basis or group basis.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(4) Impairment of financial instruments (Continued)

1) Impairment assessment method of receivables (Continued)

(iv) Portfolio category and determination basis of other receivables

Other receivables of the Group mainly include deposits and security deposits receivable, employee petty cash receivable, and export tax refund receivable. According to the nature of receivables and the credit risk characteristics of different counterparties, the Group divides other receivables into 3 portfolios: ageing portfolio, portfolio of related parties within HE's consolidation scope, and low-risk portfolio. Loss provisions are made based on the expected loss rate in accordance with the Group's accounts receivable policy.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(4) Impairment of financial instruments (Continued)

2) Impairment test method of other receivables, receivables financing, other current assets, other non-current assets, receivables containing material financing components, debt investments, and other debt investments.

The Group adopts the general method (three-stage method) to accrue ECLs for financial assets other than those measured by the above-mentioned simplified measurement method, such as other receivables, receivables financing, other current assets, other non-current assets, receivables containing material financing components, debt investments, and other debt investments. The Group evaluates whether the credit risks have increased significantly since the initial recognition on each balance sheet date. If not, it is in Stage 1, and the Group shall measure the loss provisions according to the amount equivalent to the 12-month ECLs, and calculate the interest income according to the carrying amount and the actual interest rate; if the credit risks have increased significantly since the initial recognition but no credit impairment has occurred, it is in Stage 2, and the Group shall measure the loss provision according to the lifetime ECL, and calculate the interest income according to the carrying amount and the actual

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(4) Impairment of financial instruments (Continued)

2) Impairment test method of other receivables, receivables financing, other current assets, other non-current assets, receivables containing material financing components, debt investments, and other debt investments. (Continued)

interest rate; if credit impairment occurs after initial recognition, it is in Stage 3, and the Group shall measure the loss provisions according to the amount equivalent to the lifetime ECL, and calculate the interest income according to the amortized cost and the actual interest rate. For financial instruments with low credit risk on the balance sheet date, the Group assumes that credit risk has not increased significantly since initial recognition.

Lifetime ECL refers to the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECL refers to the portion of the lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months (or, the expected life, if the expected life of the financial instrument is less than 12 months) after the balance sheet date.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(5) Recognition basis and measurement for transfer of financial assets

For transactions of transfer of financial assets, if the Group has transferred almost all risks and rewards in the ownership of the financial assets to the transferee, such financial assets shall be derecognized; if almost all risks and rewards in the ownership of financial assets are retained, such financial assets shall not be derecognized; where the Group has neither transferred nor retained almost all risks and rewards in the ownership of financial assets and the control over the financial asset is waived, the financial assets shall be derecognized and the assets and liabilities incurred shall be recognized; if the control over the financial asset is not waived, relevant financial assets shall be recognized to the extent of further involvement in the transferred financial assets, and relevant liabilities shall be recognized correspondingly.

If the entire transfer of the financial assets meets derecognition conditions, the difference between the carrying amount of the transferred financial asset on the date of derecognition and the sum of consideration received from the transfer and the amount originally included in other comprehensive income directly corresponding to the derecognized portion of the accumulated fair value changes shall be included in the current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(5) Recognition basis and measurement for transfer of financial assets (Continued)

If the partial transfer of the financial assets meets derecognition conditions, the entire carrying amount of the transferred financial assets shall be amortized at their own relative fair values between the derecognized part and the underecognized part, and the difference between the sum of consideration received from the transfer and the amount which should be amortized to the derecognized part, originally included in other comprehensive income and that the accumulative amount of change in fair value corresponds to the derecognized part and the entire carrying amount of the aforesaid financial assets amortized shall be included in the current profit or loss.

In case of further involvement through providing a financial guarantee for transferred financial assets, the assets formed by further involvement shall be recognized by the carrying amount and financial guarantee amount of financial assets, whichever is lower. The amount of financial guarantee refers to the highest amount required to be repaid among the consideration received.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(6) Distinction between financial liability and equity instrument and related treatment methods

The Group distinguishes financial liabilities and equity instruments according to the following principles: 1) If the Group fails to unconditionally perform one contract obligation by delivering cash or other financial assets, the contract obligation meets the definition of financial liabilities. While some financial instruments do not expressly include the terms and conditions for the obligation to deliver cash or other financial assets, it is possible to form contract obligations indirectly through other terms and conditions. 2) If one financial instrument must or can be settled by the Group's own equity instruments, the Group's own equity instruments used for settling such instrument shall be considered as a substitute for cash or other financial assets, or as residual equity in the issuer's assets that the instrument holder enjoys after deducting all the liabilities. If it is the former one, this instrument is the financial liability of the Issuer. If it is the latter, the instrument is the equity instrument of the Issuer. Under certain circumstances, a financial instrument contract requires that the Group must or may settle the financial instrument with its own equity instruments, where the amount of contract rights or contract obligations is equal to the number of own equity instruments available or to be delivered multiplied by the fair value upon its settlement. In this case, regardless of whether the amount of the contract right or obligation is a fixed value or changes based in whole or in

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(6) *Distinction between financial liability and equity instrument and related treatment methods (Continued)*

part on changes in variables other than the market price of the Group's own equity instruments, the contract is classified as a financial liability.

When classifying a financial instrument in the consolidated financial statements, the Group takes into consideration all the terms and conditions agreed between members of the Group and holders of financial instruments. If the Group as a whole has assumed the obligation to deliver cash, other financial assets, or settle it by other means of rendering the instrument a financial liability, the instrument should be classified as a financial liability.

(7) *Derivative financial instrument*

Derivative financial instruments are initially measured at the fair value on the date of signing the derivative transaction contract, and subsequently measured at their fair value. Derivative financial instruments with positive fair value are recognized as assets, and derivative financial instruments with negative fair value are recognized as liabilities.

Except for those related to hedge accounting, gains or losses arising from changes in the fair value of derivative financial instruments are directly included in the current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(8) Measurement of fair value

The Group measures derivative financial instruments, financial assets held for trading, and equity instrument investments at fair value on each balance sheet date. Fair value refers to the price to be received for the sale of an asset or to be paid for the transfer of a liability by the market participants in the orderly transaction on the measurement date.

If the assets and liabilities are measured or disclosed at fair value in financial statements, the level to which the fair value belongs shall be determined based on the lowest level input that is significant for the whole fair value measurement: the inputs for Level 1 are the unadjusted quoted prices of identical assets or liabilities in the active market which can be obtained on the measurement date; the inputs for Level 2 are the inputs directly or indirectly observable for relevant assets or liabilities other than those for Level 1; the inputs for Level 3 are the inputs that are unobservable for relevant assets or liabilities.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Financial Instruments (Continued)

(9) Offset of financial assets and financial liabilities

Financial assets and financial liabilities of the Group shall be presented separately in the balance sheet and not be mutually offset. However, the net amount is presented in the balance sheet after being offset, when the following conditions are met at the same time: 1) The Group has a legal right to offset the recognized amount and that such legal rights are currently enforceable; 2) The Group plans to settle by the net amount or sell off financial assets and liquidate the financial liabilities at the same time.

12. Inventories

The inventories of the Group mainly include raw materials, products in process, finished products (finished goods), goods shipped, and contract performance costs.

Inventories are initially measured at cost. The cost of inventories consists of purchase costs, conversion costs, and other costs. The perpetual inventory system is adopted for inventories. When receiving or issuing inventory, the weighted average method is used to determine its actual cost. Low-value consumables are expensed in full at the time of acquisition, while packaging materials are amortized on a 50/50 basis.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Inventories (Continued)

On the balance sheet date, inventories are measured at cost or net realizable value, whichever is lower. If the inventory cost is higher than the net realizable value, the provision for decline in the value of inventories shall be accrued and included in the current profit or loss. The net realizable value refers to the amount that is obtained by deducting the estimated cost incurred till completion, estimated selling expenses, and relevant taxes from the estimated selling price of inventories in daily activities.

For the Group's raw materials/finished goods, provision for decline in the value of inventories is made on a single inventory item basis. In determining net realizable value, inventories of goods directly for sale, such as finished goods, products in process, or materials for sale, etc., are determined by the amount of their estimated selling price less estimated selling expenses and related taxes. Raw materials held for production are determined by the amount of the estimated selling price of the finished products produced less the estimated cost to be incurred by the time of completion, the estimated selling expenses, and related taxes.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Inventories (Continued)

At the end of the period, provision for decline in the value of inventories is made on a single inventory item basis; however, for inventories with large quantity and low unit price, the Group accrues provision for decline in the value of inventories according to inventory type; for inventories that are related to product series produced and sold in the same region, have the same or similar end use or purpose, and are difficult to be measured separately from other items, the Group accrues the provision for decline in the value of inventories together. When the net realizable value is determined, it is determined based on the amount of the overall estimated selling price of the inventory portfolio minus the estimated sales expenses and related taxes.

If the influencing factors of the previous write-down of inventory value have disappeared, the write-down amount shall be restored and shall be reversed within the original provision for inventory impairment. And the reversed amount shall be included in the current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Contract assets and contract liabilities

(1) Contract assets

Contract assets refer to the Group's right to receive consideration for the goods it has transferred to customers, and the right depends on other factors, excluding the passage of time.

The contract assets of the Company mainly include quality guarantee deposits and costs incurred on completed but unsettled projects. No provision for bad debts is made for quality guarantee deposits during the guarantee period. For the determination method and accounting treatment of ECLs on contract assets, please refer to the relevant content on 11. (4) Impairment of financial instruments in Note IV above.

(2) Contract liabilities

The contract liabilities reflect the Group's obligations to transfer commodities to the customer due to customer consideration received or receivable.

The Group presents contract assets and contract liabilities on a net basis for the same contract.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Assets related to contract costs

(1) Determination method of asset amounts related to contract costs

The Group's assets related to contract costs include contract performance costs and contract acquisition costs. According to their liquidity, contract performance costs are presented separately in inventory and other non-current assets, and contract acquisition costs are presented separately in other current assets and other non-current assets.

If the contract performance cost, namely, the cost incurred by the Group for the implementation of the contract, is not in the scope of relevant accounting standards for inventory, fixed assets, or intangible assets and simultaneously meets the following conditions, it shall be recognized as an asset as the contract performance cost: the cost is directly related to a current or anticipated contract, including direct labor, direct materials, manufacturing costs, costs clearly borne by the customer, and other costs incurred solely as a result of the contract; the cost increases the Group's resources for future use in fulfilling performance obligations; and the cost is expected to be recovered.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Assets related to contract costs (Continued)

(1) Determination method of asset amounts related to contract costs (Continued)

If the incremental cost (i.e., acquisition cost) incurred by the Group in obtaining the contract is expected to be recoverable, it will be recognized as an asset of the contract acquisition cost. If the asset has an amortization period of not more than one year, the Group adopts a simplified treatment by recognizing it in the current profit or loss when it is incurred. Incremental cost refers to the cost that would not have occurred without obtaining a contract. Other expenses incurred by the Group for the acquisition of the contract, excluding the incremental costs expected to be recovered, are included in the current profit or loss when they occur, except for those clearly borne by the customer.

(2) Amortization of assets related to contract costs

The assets related to the contract costs of the Group are amortized on the same basis as the recognized sales revenue related to the assets and included in the current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Assets related to contract costs (Continued)

(3) Impairment of assets related to contract costs

In case the carrying amount of the assets related to contract costs is higher than the difference between the following two items, the Group will make provision for impairment of the excess and recognize it as the impairment losses on assets: (i) the enterprise's expected residual consideration for the transfer of goods related to the assets; (ii) the estimated cost to be incurred for the transfer of the relevant goods. After the impairment provision is made, if the impairment factors in the previous period change, so that the difference between the above two items is higher than the carrying amount of the asset, it will be reversed to the original asset impairment provision and included in the current profit or loss. However, the carrying amount of the assets reversed shall not exceed the carrying amount of the assets at the date of reversal assuming no provision for impairment is made.

15. Long-term equity investments

The long-term equity investments of the Group are mainly aimed at subsidiaries, associates, and joint ventures.

The Group judges the common control based on the point that all the participants or the group of participants collectively control the arrangement, and that the policies for the activities related to the arrangement must be agreed upon by participants who collectively control the arrangement.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Long-term equity investments (Continued)

It is generally considered that the Group, when holding, directly or through subsidiaries, 20% or more but less than 50% of the voting rights of the investee, has a material influence on the investee. The Group, if holding less than 20% of the voting right of the investee, may have a material influence on the investee in consideration of facts and situations that the Group sends representatives to the Board of Directors or similar organs of authorities of the investee, participates in financial and operation policy-making of the investee, has significant transactions with the investee, sends management personnel to the investee, or provides critical technical information for the investee.

The investee under the control of the Group shall be deemed a subsidiary of the Group. As to long-term equity investments acquired in business combination under common control, the share of the carrying amount of the net assets of the acquiree in the ultimate controller's consolidated statements on the combination date shall be recognized as the initial investment amount of long-term equity investments. If the carrying amount of the net asset of the combined party on the combination date is negative, the cost of long-term equity investments shall be determined as zero.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Long-term equity investments (Continued)

As to equity of the investees under common control acquired step by step through multiple transactions and business combination finally completed, which belongs to a package deal, the Group performs accounting treatment by regarding all transactions as a transaction for acquiring control right. If it is not a package deal, the combined party's portion of carrying amount of net assets in the ultimate controller's consolidated financial statements owned on the combination date is taken as the initial investment amount for long-term equity investment. The balance between the initial investment amount and the sum of the carrying amount of long-term equity investments which has reached the amount before the combination and the carrying amount of new payment consideration obtained on the combination date shall be applied to adjust capital reserves. Where the capital reserves are insufficient for offsetting, the retained earnings shall be offset.

For long-term equity investment acquired via business combination not under common control, the combination cost is taken as the initial investment amount.

As to equity of the investee not under common control obtained step by step through multiple transactions and business combination finally completed, which belongs to a package deal, the Group performs accounting treatment by regarding all transactions as a transaction for acquiring control right. If it is not a package deal, the sum of carrying amount of equity investment originally held and new investment cost is taken as the initial investment amount calculated by the cost method. If the equity interest originally held before the

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Long-term equity investments (Continued)

acquisition date and calculated by the equity method, relevant other comprehensive income originally figured out by the equity method is temporarily not adjusted and will be subject to accounting treatment when disposing of the investment, on the same basis as that adopted by the investee entity for directly handling related assets or liabilities. If the equity held before the acquisition date is non-trading equity instruments that are designated by the Group to be measured at FVTOCI, the accumulated changes in fair value originally included in other comprehensive income shall not be transferred into current profit or loss.

Apart from aforementioned long-term equity investments acquired through business combination, as to long-term equity investments acquired by cash payment, the actually paid amount is taken as investment cost; as to long-term equity investments acquired through issuing equity securities, the fair value of the issued equity securities is taken as the investment cost; as to long-term equity investments invested by investors, the value specified in investment contract or agreement is taken as the investment cost.

The Group calculates the investment in the subsidiaries by the cost method, with the equity method adopted for joint ventures and associates.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Long-term equity investments (Continued)

For long-term equity investments subsequently calculated by the cost method, when more investments are added, the carrying amount of the long-term equity investment cost is increased based on the fair value of the cost paid for added investment and related transaction expenses. Cash dividend or profit declared by the investee is recognized as current investment income in accordance with the amount to enjoy.

For long-term equity investments subsequently measured by the equity method, the carrying amount of the long-term equity investments shall be accordingly increased or decreased as the owners' equity of the investee changes. Wherein, the Group shall, when recognizing the shares of the net profit or loss of the investee that shall be enjoyed by the Group, calculate the portion attributed to the Group based on the fair value of each identifiable asset of the investee upon acquisition in accordance with the shareholding ratio by offsetting the portion of profit or loss of internal transaction incurred between joint ventures and associates attributable to the Group, then recognize the net profits of the investee after adjustment. The Group discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investments together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero, except for those investments for which the Group has an obligation to undertake extra losses.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Long-term equity investments (Continued)

For the disposal of long-term equity investments, the difference between the carrying amount and the actually obtained price shall be included in the current investment income. For long-term equity investments calculated by the equity method, the related other comprehensive income previously calculated by the equity method should be accounted for on the same basis as the direct disposal of the related assets or liabilities by the investee upon the termination of the equity method. The owners' equity recognized as a result of changes in the owners' equity of the investee, other than net profits and losses, other comprehensive income, and profit distribution, should be transferred in full to current investment income upon the termination of the equity method.

Where the Company loses the joint control over or the significant influence on the investee due to the disposal of part of the equity investment, the remaining equity shall be accounted for as per the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (CK [2017] No.7), and the balance between the fair value and the carrying amount on the date of losing joint control or significant influence is included in current profit or loss. Other comprehensive income recognized on the former equity investment due to the adoption of the equity method of accounting is treated on the same basis as the direct disposal of the related assets or liabilities by the investee upon the termination of the equity method of accounting and carried forward proportionately. Owners' equity recognized as a result of changes in the investee's ownership interest other than net profits and losses, other comprehensive income, and profit distribution should be transferred proportionately to current investment income.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Long-term equity investments (Continued)

For loss of control of the investee due to disposal of partial long-term equity investments, the residual equity after disposal, if capable of realizing joint control or applying significant influence on the investee, is changed to the equity method for accounting, the difference between the carrying amount of the disposed equity and the disposal consideration is included in the investment income, and the residual equity is adjusted as if it had been accounted for using the equity method since acquisition; the residual equity after disposal, if unable to realize joint control or apply significant influence on the investee, is subject to accounting treatment based on the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (CK [2017] No.7), the difference between the carrying amount of the disposed equity and the disposal consideration is included in the investment income, and the difference between the fair value and carrying amount of the residual equity on the date of loss of control is included in current profit or loss.

Various transactions of the Group from step-by-step equity disposal to loss of controlling power do not constitute a package deal, and every transaction is separately subject to accounting treatment. Any transaction categorized as a package deal is subject to the accounting treatment oriented for subsidiary disposal and loss of controlling power. However, before the loss of controlling power, the difference between the disposal price and carrying amount of long-term equity investments of the corresponding disposed equity interest for every transaction is recognized as other comprehensive income, which is not transferred into current profit or loss until the controlling power is lost.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Investment properties

Investment properties of the Group refer to the properties held for earning rents or capital appreciation, or both, including houses and buildings that have already been rented and land use rights; these properties are measured by the cost model.

The existing investment properties of the Group are measured by the cost model. The same depreciation policy as that for the fixed assets of the Company shall be adopted for the investment properties – buildings used for renting measured as per the cost model, and the land use rights for renting shall be subject to the same amortization policy as that for intangible assets.

17. Fixed assets

Fixed assets of the Group refer to tangible assets with a useful life of more than one year held for producing goods, rendering labor services, renting, or operating management.

No fixed asset may be recognized unless it simultaneously meets the conditions as follows: The economic benefits pertinent to the fixed asset are likely to flow into the Group, and the cost of the fixed asset can be measured reliably. Fixed assets of the Group include plant and buildings, machinery, transportation equipment, electronic equipment, and office equipment.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Fixed assets (Continued)

Except for the fully depreciated fixed assets that are still in use and the land that is separately valuated and recorded, all the fixed assets of the Group shall be depreciated. Straight line method shall be adopted for calculating depreciation. The category, depreciation life, estimated net residual rate, and depreciation rate of the fixed assets of the Group are as follows:

No.	Category	Depreciable life *(year)*	Estimated residual rate *(%)*	Annual depreciation rate *(%)*
1	Houses and buildings	15—30	3.00	3.23–6.47
2	Machinery	7—15	3.00	6.47–13.86
3	Transportation facilities	5—6	3.00	16.17–19.40
4	Electronic equipment	5—10	3.00	9.70—19.40
5	Office equipment	5—9	3.00	10.78–19.40
6	Others	5—9	3.00	10.78–19.40

At the end of each year, the Group reviews the estimated useful life, estimated net residual value and depreciation methods of fixed assets. If a change occurs, it shall be treated as a change in accounting estimates.

If a fixed asset is disposed of or if no economic benefit will be obtained from the use or disposal, the recognition of such fixed asset is terminated. The disposal income from selling, transferring, discarding or damaging of fixed assets shall be deducted by the carrying amount thereof and relevant taxes and then included in the current profits or losses.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Construction in progress

The cost of construction in progress will be recognized according to the actual construction expenditures, including various necessary construction expenditures during construction, capitalized borrowing costs before the projects are ready for their intended use, and other relevant expenses.

Construction in progress ready for intended use shall be transferred to fixed assets based on the estimated value according to construction budget, project cost or actual project cost. The depreciation shall be provided from the next month. After going through procedures of completion settlement, the difference of the original value of the fixed assets shall be adjusted.

19. Borrowing costs

The Group capitalizes the borrowing costs directly attributable to the acquisition or production of assets eligible for capitalization and includes them in relevant asset costs, while other borrowing costs are included in current profits or losses. The assets meeting the capitalizing conditions determined by the Group include the borrowing costs of fixed assets, investment properties and inventories that require more than one year of acquisition or construction to be ready for intended use or selling. Capitalization shall be conducted when the expenditures of the assets and the borrowing costs incurred and acquisition or construction activities necessary for making the assets ready for intended use or selling begin. When the assets meeting the capitalization requirements acquired or constructed are ready for use or selling, the

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Borrowing costs (Continued)

capitalization shall be terminated, and the borrowing costs incurred subsequently shall be included in current profits and losses. If assets eligible for capitalization are suddenly suspended in acquisition or construction or production for more than three months continuously, the capitalization of borrowing costs shall be suspended until the restart of acquisition or construction and production activities of the assets.

During the capitalization period, the Group recognizes the capitalized amount of borrowing costs using the following methods for each accounting period: For special borrowings, the capitalized amount is determined by the actual interest expenses incurred during the period minus any interest income earned on unused borrowing funds deposited in banks or investment income generated from temporary investments during the period; For general borrowings used, the capitalized amount is determined by multiplying the weighted average of accumulated asset expenditures exceeding the special borrowing portion by the capitalization rate attributable to the general borrowings. The capitalization rate is calculated based on the weighted average interest rate of the general borrowings. Where bonds are issued at a discount or premium, the amortization amount of such discount or premium for each accounting period shall be determined using the effective interest method, and the interest expenses for each period shall be adjusted accordingly.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Intangible assets

The intangible assets of the Group include land use rights, patent rights, non-patented technologies, software, non-patented technologies, franchises, etc. and shall be measured at actual cost when being obtained; for the intangible assets purchased, the price actually paid and related other expenditures shall be deemed as actual cost; for intangible assets obtained from debt restructuring and used by the debtor to settle debts, the fair value of the intangible assets is used as the basis to determine the carrying amount; and for the intangible assets invested by the investor, the value agreed in accordance with the investment contract or agreement is recognized as actual cost, except where the value agreed in the contract or agreement is unfair, in which case the actual cost shall be recognized at fair value. The entry value of intangible assets acquired through business combination by merger under common control shall be determined in accordance with the carrying amount of the combined party; the entry value of intangible assets acquired through business combination by merger not under common control shall be determined in accordance with their fair value. The costs of intangible assets developed internally include: materials, service costs and registration fees consumed in the development of the intangible assets, amortization of other patent rights and franchises used in the development process, interest costs that meet the capitalization conditions, as well as other direct costs incurred before the achievement of the intended use of the intangible asset.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Intangible assets (Continued)

The land use rights shall be averagely amortized according to the transfer period from the start date of transfer. Intangible assets such as software, patents, and franchises shall be amortized on average within the period of economic benefits. The amortized amounts shall be included in current profits or losses and relevant asset costs according to beneficiaries. The estimated useful life and the amortization method of intangible assets with limited useful life shall be reviewed at the end of each year. If a change occurs, it shall be treated as a change in accounting estimates.

The collection scope of R&D expenses of the Group includes remuneration of R&D personnel, direct investment expenses, depreciation and deferred expenses, design expenses, equipment commissioning expenses, entrusted external R&D expenses, and other expenses.

21. Research and development

The Group's research and development expenditures are classified as research-stage expenditures and development-stage expenditures based on their nature and whether there is a high degree of uncertainty that the research and development activities will ultimately result in intangible assets. The research-stage

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Research and development (Continued)

expenditures shall be included in current profits or losses when incurred. The development-stage expenditures shall be recognized as intangible assets when meeting the following conditions:

(1) With technical feasibility for finishing the intangible assets to use or sell;

(2) There is an intention to complete the intangible assets and use or sell it;

(3) There exists market for products produced by using the intangible assets or market of the intangible assets;

(4) There are enough support of technical, financial and other resources for finishing development of the intangible assets as well as capacity for using or selling the assets;

(5) The expenditure attributable to the intangible assets during its development phase can be reliably measured.

The expenditures in development stage which do not meet the above conditions shall be included in current profits or losses when incurred. The development expenditures which have been previously included in profits or losses cannot be recognized as assets later. The capitalized expenditures in development stage shall be listed in the balance sheet as development expenditures and transferred into intangible assets when the R&D project is ready for intended use.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Long-term deferred expenses

The long-term deferred expenses of the Group include decoration expenses, improvement expenditures of fixed assets, and other expenses paid by the Group but amortized over more than one year during the current period and subsequent periods. Such expenses shall be equally amortized in the benefit period. If a long-term deferred expense is not expected to benefit future accounting periods, the unamortized carrying value of the item shall all be transferred to current profit or loss.

23. Goodwill

Goodwill is the difference by which the cost of equity investment or the cost of business combination not under common control exceeds the fair value share of the investee or the acquiree's identifiable net assets on the acquisition date or purchase date, which should be enjoyed or obtained from business combination.

Goodwill related to subsidiaries is presented separately in consolidated financial statements. Goodwill related to associates and joint ventures is included in the carrying amount of long-term equity investments.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Impairment of long-term assets

On each balance sheet date, the Group shall check the long-term equity investments, investment properties measured by the cost model, fixed assets, construction in progress, right-of-use assets, intangible assets with a limited useful life, and other items. In case of any indication of impairment, the Group shall carry out an impairment test. Impairment test shall be conducted on goodwill, intangible assets with uncertain useful life and development expenditures not yet available at the end of each year no matter whether there is any indication of impairment.

The Group determines whether there is any sign of possible impairment for the long-term assets on the balance sheet date. If there is any sign of possible impairment for the long-term assets, the Group will estimate the recoverable amount on single asset basis. If the recoverable amount of the single asset is hard to estimate, it shall be determined by the asset group to which it belongs.

The recoverable amount of the assets is estimated based on the net amount calculated by deduction of disposal fees from the fair value of the assets, or the present value of expected future cash flow of the assets, whichever is higher. Where the recoverable amount of long-term assets is lower than the carrying amount according to the measurement of recoverable amount, their carrying amount shall be written down to the recoverable amount, and the write-down amount shall be recognized as asset impairment loss and included in current profit or loss. Simultaneously, the provision for impairment of assets shall be drawn accordingly. Once confirmed, the asset impairment loss shall not be reversed in future accounting periods.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Impairment of long-term assets (Continued)

After the asset impairment loss is recognized, the depreciation or amortization charges of the impaired assets shall be adjusted accordingly in the future to enable systematic amortization of the adjusted carrying amount of assets (deducting the expected net residual value) in the remaining useful life.

Impairment tests shall be conducted on goodwill formed in business combination and intangible assets with uncertain useful life every year no matter whether there is any sign of impairment.

In conducting the impairment test for goodwill, the carrying amount of goodwill shall be allocated to the asset groups or portfolio of asset groups that are expected to benefit from the synergy of business combination. When conducting impairment tests on the related asset groups or portfolios of asset groups that contain goodwill, if there are indications of impairment, test the asset groups or portfolios of asset groups that do not contain goodwill first, calculate the recoverable amount, and compare it with the related carrying amount to confirm the corresponding impairment loss. Then, the asset groups or portfolios of asset groups including goodwill are tested for impairment. Comparing the carrying amount (including the carrying amount of goodwill allocated) of the related asset groups or portfolios of asset groups and their recoverable amounts, where the recoverable amount of relevant asset groups or portfolio of asset groups is lower than its carrying amount, an impairment loss is recognized for goodwill.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Impairment of long-term assets (Continued)

Once recognized, the above impairment losses on assets will not be reversed in subsequent periods.

25. Employee benefits

Employee benefits of the Group include short-term employee benefits, post-employment benefits, and termination benefits.

Short-term employee benefits mainly include salary, bonus, allowances and subsidies; welfare expenses; medical insurance premiums, employment injury insurance premiums, birth insurance premiums and other social insurance premiums; housing provident fund; labor union expenditure and employee education fund; short-term compensated absences; short-term profit sharing plan; non-monetary welfare and other short-term benefits. During the accounting period, when employees provide services, the actual short-term benefits are recognized as liabilities and included in the current profit or loss or relevant asset costs according to the beneficiaries.

Post-employment benefits mainly include pension insurance, annuities, unemployment insurance, etc., which shall be classified into defined contribution plan and defined benefit plan as per the risk and obligation assumed by the Company. Contribution paid to an individual subject for the services provided by the employees in the accounting period on the balance sheet date as per the defined contribution plan shall be recognized as liabilities, and included in the current profits or losses or related asset cost as per the benefit object.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Employee benefits (Continued)

The defined contribution plan of the Group refers to the basic endowment insurance and unemployment insurance paid for the employees according to relevant regulations by local governments. During the accounting period when employees render services to the Group and its affiliated enterprises, the amount payable calculated by the base and ratio in conformity with local regulation is recognized as a liability and accounted for current profit and loss or related cost of assets.

Termination benefits refer to the compensation paid to employees when the Group and its affiliated enterprises terminate the employment relationship with employees prior to the expiration of the employment contracts or provided as an offer to encourage employees to accept voluntary layoffs. When the Group and its affiliated enterprises provide termination benefits, the employment benefit liabilities generated from termination benefits are included in current profit or loss on the earlier of the following dates: when the Group and its affiliated enterprises cannot unilaterally revoke the plan to terminate the employment relationship or layoff proposals; when the Group and its affiliated enterprises confirm and recognize related costs or expenses incurred for restructuring involving the payment of termination benefits.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Estimated liabilities

When pending legal proceedings or arbitration, product quality assurance, the contract to be executed becoming an onerous contract or other contingent matters meet the following requirements at the same time, the Group shall recognize such obligations as liabilities: the assumed obligations are present obligations; the fulfillment of such obligations will likely cause the outflow of economic benefits from the Group; the amount of such obligations can be measured reliably.

Provision is initially measured at the best estimate of expenditures required to perform relevant current obligations, and the risks, uncertainties, and time value of money related to contingencies are taken into comprehensive consideration. Where the time value of money is of great influence, the best estimate is recognized through the discount of relevant future cash outflows. As of the balance sheet date, the carrying amount of the provision is reviewed and adjusted (if any change) to reflect the current best estimate.

27. Share-based payment

The share-based payments of the Group and its affiliated enterprises consist of equity-settled share-based payments and cash-settled share-based payments.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Share-based payment (Continued)

The equity-settled share-based payment for obtaining the services of employees shall be measured according to the fair value on the date when the equity instrument is granted to employees. Where the equity instrument can be vested immediately upon being granted, the share-based payment is included in relevant costs or expenses at the fair value of equity instrument on the grant date and the capital reserve shall be increased accordingly. Where the equity instrument cannot be vested until the vesting period comes to an end or until the specified performance conditions are met, at each balance sheet date within the vesting period, the services acquired in the current period are, based on the optimal estimation of the number of vested equity instruments, included in relevant costs or expenses and capital reserve at the fair value specified on the grant date of equity instruments. If the terms for equity-settled share-based payment have been modified, the services obtained shall be recognized at least according to the terms and conditions prior to such modification. In addition, the increase of services obtained shall be recognized in the event of the modification causing the increase in the fair value of the granted equity instrument or the changes in favor of employees on the modification date.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Share-based payment (Continued)

If the equity-settled share-based payment has been canceled, vesting shall be accelerated on the cancel date and the unrecognized amount shall be recognized immediately. In the event that the employees or other parties can choose to satisfy the non-exercisable conditions but fail to do so during the vesting period, such event shall be treated as cancellation of equity-settled share-based payment. However, if a new equity instrument has been granted and it is confirmed that such new equity instrument is used to replace the canceled one on the grant date of the new one, the newly granted equity instrument for replacement shall be treated by using the same method as that for treating the modification of terms and conditions for the original equity instrument.

Cash-settled share-based payment shall be measured at the fair value of liabilities recognized based on stocks or other equity instruments assumed by the Group. For the share-based payment with immediate vesting after it is granted, its relevant cost or expenditure shall be included on the date when it is vested with increasing the liabilities correspondingly; for the share-based payment vesting only after the services in the waiting period is completed or the specified performance conditions are satisfied, the services obtained in the current period shall be recorded into costs or expenditures based on the optimal estimation of the vesting and at the fair value of the liabilities assumed by the Group on each balance sheet date within the waiting period, and the liabilities shall be adjusted correspondingly. On each balance sheet date and the settlement date prior to the settlement of the relevant liabilities, the fair value of the liabilities shall be re-measured, with the change of the fair value recognized into current profits and losses.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Bonds payable

(1) General corporate bonds

Bonds payable at FVTPL are initially recognized at their fair value. Relevant transaction expenses are directly included in current profits or losses and subsequently measured at fair value.

For other categories of bonds payable, the sum of their fair value and related transaction costs shall be used as the initial recognition amount, and the amortized cost shall be used for subsequent measurement. Premium or discount is the adjustment of interest expenses during the duration of bonds payable, which is amortized by the effective interest rate method during the duration of bonds.

(2) convertible corporate bonds

Convertible corporate bonds issued by the Group and its affiliated enterprises are initially recognized by splitting the liability component and equity component, recognizing the liability component as bonds payable and the equity component as capital reserve. When splitting, 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 based on the total issue price minus the initial recognition amount of the liability component. The transaction costs arising from the issuance of convertible bonds are amortized between the liability portion and the exchangeable option portion at their respective fair values.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Recognition principles and measuring methods of revenue

The Group's operating revenue mainly includes revenue from sales of power generation equipment, engineering construction, and financial services.

(1) General principles

The Group has fulfilled its performance obligations of the contract, meaning it recognizes the revenue when the customer has obtained the control rights of the relevant goods or services. The acquisition of control over the relevant goods or services means to be able to dominate the use of the goods or the provision of the service and obtain almost all the economic benefits.

Performance obligation refers to the Group's promise in a contract to transfer distinguishable products to a customer. In case one of the following conditions is met, the Group will perform the performance obligations within a period of time. Otherwise, it will perform the performance obligations at a time point: (i) The customer obtains and consumes the economic benefits brought by the Group while performing the contract; (ii) The customer can control the goods under construction during the Group's performance; (iii) The goods generated during the performance of the Group are irreplaceable, and the Group is entitled to collect the amount for the performance accumulatively completed so far throughout the term of the Contract.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Recognition principles and measuring methods of revenue (Continued)

(1) General principles (Continued)

For the performance obligations performed within a certain period of time, the Group shall recognize the revenue within that period according to the performance progress. If the performance progress cannot be reasonably determined and the costs incurred can be expected to be compensated, the revenue is recognized by the Company according to the costs incurred until the performance progress can be reasonably determined.

For performance obligations performed at a certain time point, the Group shall recognize the revenue at the time point when the customer gains control rights of the relevant goods. In determining whether a customer has obtained control of the goods, the Group shall take the following indications into comprehensive consideration: (i) The Group enjoys the present right to payment for the goods, i.e., the customer has a present obligation to pay for the goods; (ii) The Group has transferred the legal ownership of the goods to the customer, i.e., the customer owns the legal ownership of the goods; (iii)The Group has transferred the goods to the customer in kind, i.e., the customer has physical possession of the goods; (iv) The Group has transferred the major risks and rewards on the ownership of the goods to the customer, i.e., the customer has obtained the major risks and rewards on the ownership of the goods; (v) The customer has accepted the goods; ⑥ Other indications that the customer has obtained control of the goods.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Recognition principles and measuring methods of revenue (Continued)

(1) General principles (Continued)

If the contract contains two or more performance obligations, the Group shall, at the beginning of the contract, apportion the transaction price to each performance obligation according to the relative proportion of the individual selling price of the goods or services promised by each performance obligation, and measure the revenue according to the transaction price apportioned to each performance obligation.

The transaction price is the amount of consideration that the Group is expected to be entitled to receive for the transfer of goods or services to the customer, but excluding payments received on behalf of third parties and payments expected to be refunded to customers. When determining the transaction price, the Group considers the effects of variable consideration, contracts containing significant financing components, and other relevant factors.

Where there is a variable consideration in the contract, the Group determines the best estimate of the variable consideration based on the expected value or the most probable amount. The transaction price of the variable consideration is included, which shall not exceed the amount of accumulated recognized income that will most likely not be great reverse when the relevant uncertainty is removed. On each balance sheet date, the Group shall re-estimate the amount of variable consideration included in the transaction price.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Recognition principles and measuring methods of revenue (Continued)

(1) General principles (Continued)

For contracts that contain significant financing components, the Group determines the transaction price by assuming that the customer pays the payable amount in cash upon obtaining control of the goods. The nominal amount of the contract consideration is discounted to the current selling price of the goods using a discount rate. The difference between the determined transaction price and the contracted promised consideration is amortized over the contract period using the effective interest rate method. At the commencement date of the contract, if the Group expects that the interval between the customer's acquisition of control over goods or services and the payment of the price by the customer will not exceed one year, the significant financing component existing in the contract would not be considered.

The Group determines whether it is the principal responsible person or agent during transactions based on whether it has control over the goods before transferring the goods to customers. If the Group has control over the goods before transferring them to customers, the Group is the principal responsible person and recognizes the revenue according to the total consideration received or receivable; otherwise, the Group acts as an agent, and recognizes the revenue according to the amount of commission or handling charge expected to be entitled. The amount shall be determined

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Recognition principles and measuring methods of revenue (Continued)

(1) General principles (Continued)

based on the net amount of the total consideration received or receivable less amounts payable to other related parties, or based on predetermined commission amounts or rates.

For any sales with a sales return clause, when the customer obtains control over relevant goods, the Group recognizes the revenue based on the amount of consideration expected to be entitled to receive due to the transfer of goods to the customer and recognizes the amount to be returned due to sales return as estimated liabilities. At the same time, the Group recognizes an asset, i.e., return cost receivable, measured at the carrying amount of the goods expected to be returned less any expected costs to recover such goods (including any expected diminution in the value of the returned goods), and carries forward cost of sales at the net amount of the carrying amount of the goods transferred less the cost of the above asset. On each balance sheet date, the Group re-estimates the return of future sales and re-measures the above assets and liabilities.

According to the contractual stipulations, legal provisions, etc., the Group provides quality assurance for the goods sold, which belongs to the guarantee quality assurance to assure customers that the goods sold meet the established standards. The Group performs accounting treatment according to 26. Estimated liabilities of Note III.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Recognition principles and measuring methods of revenue (Continued)

(2) Specific methods

1) Specific method for revenue recognition at a point in time

According to the nature of various types of power generation equipment, sales revenue from the sale of equipment including boilers, steam turbines, gas turbines, turbo-generators, and other equipment below the 600MW class, excluding hydropower and nuclear power equipment, is recognized at a point in time upon receipt of the full set of relevant equipment.

2) Specific method for revenue recognition over a period of time

Based on the nature, scale, and other characteristics of power generation equipment, the following products are categorized as performance obligations fulfilled over a period of time: (1) boiler units, steam turbines, gas turbines, and turbo-generator main units of the 600MW class and above; (2) water turbines and hydro-generators; (3) reactor coolant pumps, nuclear power generators, MSR products (moisture separator reheaters), and nuclear island main equipment; and (4) engineering construction projects. The Company adopts the input method to recognize revenue, that

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Recognition principles and measuring methods of revenue (Continued)

(2) Specific methods (Continued)

2) Specific method for revenue recognition over a period of time (Continued)

is, the performance progress of services provided is determined according to the proportion of accumulated actual costs incurred to estimated total costs. If the performance progress cannot be reasonably determined and the costs incurred can be expected to be compensated, the revenue is recognized by the Company according to the costs incurred until the performance progress can be reasonably determined.

3) Specific method for recognition of financial services revenue

Revenue is recognized based on the period over which the right to use the funds is transferred and the effective interest rate. Fee and commission income is earned through the provision of various services to customers. Specifically, fees and commissions charged for providing services within a certain period are recognized evenly during the corresponding period, and other fees and commissions are recognized upon completion of the relevant transaction.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Government subsidies

Government subsidies refer to monetary or non-monetary assets acquired by the Group from the government for free. The government subsidies shall be recognized when all the attached conditions can be satisfied and the government subsidies can be received by the Group.

If the government subsidy is a monetary asset, it shall be measured according to the amount actually received. For subsidies appropriated according to fixed quota standards, or when at the end of the period, there is conclusive evidence that the relevant conditions stipulated in the financial support policy can be met and the financial support funds are expected to be received, such government subsidies shall be measured in accordance with the amount receivable; if government subsidies are non-monetary assets, they shall be measured at fair value. If the fair value cannot be obtained reliably, the government subsidies shall be measured according to the nominal amount (RMB1).

Government subsidies of the Group fall into asset-related government subsidies and revenue-related government subsidies. The asset-related government subsidies refer to those obtained by the Group and used for the acquisition or construction of long-term assets or the obtainment of such assets in other forms. The revenue-related government subsidies refer to those other than the asset-related government subsidies. If no assistance object is specified in the government documents, the Group shall determine it based on the above identifying principles. For those hard to be identified, classify them totally in the revenue-related government subsidies.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Government subsidies (Continued)

Where an asset-related government subsidy is recognized as deferred income, it shall be amortized to profit or loss in stages over the useful life of the constructed or purchased asset on a reasonable and systematic basis.

The revenue-related government subsidies shall be recognized as deferred income and included in the current profit or loss when recognizing the related expenses or losses if they are used for compensating the subsequent related expenses or losses of the enterprise; should they be used for compensating the related expenses or losses that have been incurred, they shall be directly included in the current profit or loss upon acquisition.

The government subsidies related to the daily activities of the enterprise shall be included in other income; and the government subsidies irrelevant to the daily activities of the enterprise shall be included in non-operating revenue and expenses.

When the Group obtains discounted interest subsidies on preferential policy loans, the Group distinguishes between two situations, i.e. the situation in which public finance departments appropriate the discount interest funds to the loan banks and the situation in which public finance departments directly appropriate the discount interest funds to the Group, and carries out the accounting treatment separately according to the following principles: (1) In the situation where public finance departments appropriate the discount interest funds to the loan banks, if the loan banks provide loans to the Group at a policy preferential interest rate, the Group takes the actually

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Government subsidies (Continued)

received borrowing amount as the entry value of the borrowings and calculates the relevant borrowing costs according to the borrowing principal and the policy preferential interest rate (or the Group includes the fair value of the borrowing as the entry value of the borrowing and calculates borrowing costs based on the effective interest method. The difference between the actually received amount and the fair value of the borrowing is recognized as deferred income. The deferred income is amortized by using the effective interest rate method and offsets relevant borrowing costs within the duration of the borrowing.) (2) In the situation where public finance departments directly appropriate the discount interest funds to the Group, the Group shall write off the corresponding discount interest subsidies against the related borrowing costs.

31. Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities of the Group are calculated and recognized based on the temporary differences arising from the difference (temporary difference) between the tax bases and the carrying amounts of assets and liabilities, as well as the difference between the carrying amounts of items that are not recognized as assets or liabilities but for which the tax bases can be determined according to tax regulations and the tax bases. As to deductible losses and tax deductions that can be used to deduct taxable income in the future as specified by tax laws, corresponding deferred tax assets shall be recognized as per temporary differences.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Deferred tax assets and liabilities (Continued)

If the taxable temporary difference is related to the initial recognition of goodwill and to the initial recognition of assets or liabilities incurred in a transaction that neither is a business combination nor impacts the accounting profits and the taxable income (or deductible losses) at the time of occurrence, relevant deferred tax liabilities shall not be recognized. In addition, for the taxable temporary difference related to the investment of subsidiaries, associates, and joint ventures, if the time for the reversal of the temporary difference can be controlled by the Group, and such temporary difference is unlikely to be reversed in the foreseeable future, relevant deferred tax liabilities will not be recognized. Except for the above exceptions, the Group recognizes all the deferred tax liabilities arising from other taxable temporary differences.

For the deductible temporary difference with respect to the initial recognition of assets or liabilities incurred in a transaction that is not a business combination and the occurrence of which has no impact on the accounting profits and the taxable income (or deductible losses), relevant deferred tax assets shall not be recognized. In addition, for the deductible temporary difference related to the investment of subsidiaries, associates and joint ventures, if such temporary difference is unlikely to be reversed in the foreseeable future, or it is unlikely to obtain the taxable income to deduct the deductible temporary difference in the future, relevant deferred income tax assets will not be recognized. Except for the above exceptions, deferred tax assets of the Group are recognized for deductible temporary differences to the extent that the taxable profit may be available against which the deductible temporary differences can be utilized.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Deferred tax assets and liabilities (Continued)

On the balance sheet date, deferred tax assets and liabilities shall be measured at the applicable tax rate during the anticipated period for recovering such assets or paying off such liabilities.

Deferred tax assets of the Group are recognized for deductible temporary differences to the extent that the taxable profit may be available against which the deductible temporary differences can be utilized. For recognized deferred tax assets, if it is predicted that the amount of taxable income cannot be sufficient to deduct the deferred tax assets in future periods, the carrying amount of deferred tax assets should be written down. Any such write-down shall be subsequently reversed where it becomes probable that sufficient taxable income will be available.

32. Leases

(1) Identification

On the commencement date of a contract, the Group evaluates whether the contract is a lease or includes a lease. Where a party to a contract transfers the right to control the use of one or more identified assets for a certain period of time in return for consideration, the contract is a lease or includes a lease. If the contract includes multiple separate leases at the same time, the lessee and the lessor will split the contract and carry out accounting treatment for each separate lease.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Leases (Continued)

(2) The Group as a lessee

1) Recognition of leases

In addition to short-term leases and low-value asset leases, at the commencement date of the lease term, the Group recognizes the right-of-use asset and lease liabilities for the lease.

The right-of-use asset refers to the right of the Group as the lessee to use the leased asset during the lease term and is initially measured at cost. The cost includes: (i) initial measurement amount of lease liabilities; (ii) lease payment paid on or before the commencement date of the lease term less the amount related to the enjoyed lease incentive; (iii)initial direct cost incurred; and (iv) costs expected to be incurred for dismantling and removing the leased asset, restoring the site where the leased asset is located or restoring the leased asset to the state agreed in the leasing terms (except those incurred for the production of inventory). If the Group remeasures the lease liabilities in accordance with the relevant provisions of the leasing standards, the carrying amount of the right-of-use asset shall be adjusted accordingly.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Leases (Continued)

(2) The Group as a lessee (Continued)

1) Recognition of leases (Continued)

The Group depreciates the right-of-use assets by the straight-line method based on the expected consumption mode of economic benefits related to the right-of-use asset. If the ownership of the leased asset can be reasonably confirmed to be acquired at the expiration of the lease term, the depreciation shall be carried out within the remaining useful life of the leased asset; otherwise, the depreciation shall be carried out within the lease term or the remaining useful life of the leased asset, whichever is shorter. The depreciation amount for provision is included in the cost of underlying assets or the current profit or loss according to the use of the right-of-use asset.

The Group initially measures the lease liabilities according to the present value of the lease payment which is not made at the commencement date of the lease term. The lease payment includes: (i) fixed payment and in-substance fixed payment, deducting the amount related to lease incentives; (ii) variable lease payment depending on index or ratio; (iii) exercise price of purchase option when the Group reasonably determines to exercise purchase option; (iv) payment made for exercising the option to terminate

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Leases (Continued)

(2) The Group as a lessee (Continued)

1) Recognition of leases (Continued)

the lease when the lease term reflects that the Group exercises such option; (v) amount expected to be paid according to the guaranteed residual value provided by this Group.

In the calculation of the present value of the lease payment, the Group adopts the interest rate implicit in lease as the discount rate. If the Group is unable to determine the interest rate implicit in the lease, the incremental borrowing rate will be taken as the discount rate. The interest expenses of the lease liabilities within each lease term shall be calculated according to the fixed periodic rate, and included in the current profit or loss, except for those that should be capitalized.

When the Group recognizes the interest on the lease liabilities after the commencement date of the lease term, it will increase the carrying amount of the lease liabilities; When making the lease payment, it will reduce the carrying amount of the lease liabilities. If there is any change in the substantially fixed payment, the expected amount payable of the guaranteed residual value, the index or ratio for determination of the lease payment, the evaluation result of the

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Leases (Continued)

(2) The Group as a lessee (Continued)

1) Recognition of leases (Continued)

purchase option, renewal option or termination option, or the actual exercise of the options, the Group will re-measure the lease liabilities according to the present value of the lease payment after the change.

2) Short-term lease and low-value asset lease

For the short-term lease with a lease term of not more than 12 months and low-value asset lease with a lower value when a single leased asset is brand new, the Group chooses not to recognize the right-of-use asset and lease liabilities. The Group will include the lease payment for short-term lease and low-value asset lease into the related asset cost or current profits and losses by the straight-line method or other systematic and reasonable methods during each lease term.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Leases (Continued)

(3) The Group as the lessor

As the lessor, if a lease substantially transfers almost all risks and rewards related to the ownership of the leased asset, the Group shall classify the lease as a financial lease, and other leases other than the finance leases as operating leases.

1) Financial Leasing

At the commencement date of the lease term, the Group recognizes the financial lease receivables for the financial lease and derecognizes the financial leasing assets. When the Group initially measures the financial lease receivables, the net investment in a lease is taken as the entry value of the financial lease receivables.

The net investment in the lease comprises the present value of the unguaranteed residual value and lease payments receivable that are not received at the commencement date, discounted using the interest rate implicit in the lease. The Group calculates and recognizes interest income in each period during the lease term at a fixed periodic rate. The variable lease payment obtained by the Group but not included in the measurement of net investment in leases is included in the current profit or loss when it occurs.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Leases (Continued)

(3) The Group as the lessor (Continued)

2) Operating lease

In each period during the lease term, the Group will recognize the lease amount of operating lease as the rental income by the straight-line method.

The initial direct expenses incurred by the Group relating to the operating lease are capitalized to the cost of the underlying asset of the lease, and shall be included in the current profit or loss in stages during the lease term according to the same recognition basis as rental income. The Group's variable lease payment which is related to operating lease and not included in lease receipts is included in the current profit or loss when it actually occurs.

If there is a change in the operating lease, the Group will take it as a new lease from the effective date of change, and the lease receipts received in advance or receivable related to the lease before the change will be regarded as the receipts for the new lease.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Held-for-sale

Where the Group recovers its carrying amount mainly through the sales (including the exchange of non-monetary assets of commercial nature, similarly hereinafter) other than the continuous use of a non-current asset or disposal group, the non-current asset or disposal group shall be classified as held-for-sale.

The Group classifies the non-current assets or disposal groups meeting the following conditions as held for sale: (1) The non-current assets or disposal groups can be immediately sold under current conditions pursuant to general terms for selling such assets or disposal groups; (2) The sales are very likely to occur, i.e., a resolution has been taken on a sales plan and a definitive purchase commitment has been obtained, and the sales are expected to be completed within one year. Relevant regulations require that the relevant approval needs to be obtained for those available for sale after approval by the relevant authorities or regulators. Before the non-current assets or disposal groups are classified as held for sale for the first time, the Group shall measure the carrying amount of each asset and liability in the non-current assets or disposal groups in accordance with the relevant accounting standards. When the non-current assets or disposal groups held for sale are measured initially or remeasured on the balance sheet date, if the carrying amount is higher than the net amount obtained by deducting the selling expenses from the fair value, the carrying amount shall be reduced to the net amount obtained by deducting the selling expenses from the fair value, and the write-down amount shall be recognized as the asset impairment losses and shall be included in the current profit or loss and the accrual for provision for impairment of assets held for sale shall be made at the same time.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Held-for-sale (Continued)

The Group classifies the non-current assets or disposal groups that are acquired exclusively for resale, meeting the conditions of "the sales are expected to be completed within one year" on the acquisition date and likely to meet other conditions for assets held for sale in a short time (usually 3 months) as the assets held for sale on the acquisition date. In the initial measurement, the initial measurement amount assuming they are not classified as assets held for sale and the net amount obtained by deducting the selling expenses from the fair value are compared, whichever is lower. Except for the non-current assets or disposal groups acquired in the business combination, the difference arising from the net amount obtained by deducting the selling expenses from the fair value in the non-current assets or disposal groups as the initial measurement amount shall be included in the current profit or loss.

If the Group loses control over its subsidiaries due to the sales of investment in subsidiaries and other reasons, whether the Group reserves some of its equity investments after the sales or not, when the investment in subsidiaries to be sold meets the conditions for assets held for sale, the investment in subsidiaries will be classified as assets held for sale as a whole in the individual financial statements of the parent company and all the assets and liabilities of subsidiaries will be classified as assets held for sale in the consolidated financial statements.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Held-for-sale (Continued)

If the net amount obtained by deducting the selling expenses from the fair value of non-current assets held for sale on the subsequent balance sheet date increases, the previous write-down amount shall be recovered and reversed from the asset impairment losses recognized after being classified as assets held for sale, and the reversed amount shall be included in the current profit or loss. The asset impairment losses recognized before being classified as assets held for sale shall not be reversed.

For the asset impairment losses recognized in the disposal group held for sale, the carrying amount of the goodwill in the disposal group shall be deducted, and then the carrying amount shall be deducted proportionately based on the proportion of the carrying amount of each non-current asset.

If the net amount obtained by deducting the selling expenses from the fair value of disposal groups held for sale on the subsequent balance sheet date increases, the previous write-down amount shall be recovered and reversed from the asset impairment losses recognized in the non-current assets applicable to the relevant measurement rules after being classified as assets held for sale, and the reversed amount shall be included in the current profit or loss. The carrying amount of goodwill deducted and the asset impairment losses recognized in the non-current assets before being classified as assets held for sale shall not be reversed.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Held-for-sale (Continued)

For the subsequently reversed amount of asset impairment losses recognized in the disposal group held for sale, the carrying amount shall be increased proportionately based on the proportion of the carrying amount of each non-current asset other than the goodwill in the disposal group.

Non-current assets held for sale or non-current assets in disposal groups are not depreciated or amortized and interest and other expenses on liabilities in disposal groups held for sale continue to be recognized.

When the non-current assets or disposal groups held for sale are not further classified as assets held for sale or the non-current assets are removed from the disposal groups held for sale due to failure to meet the conditions for assets held for sale, the measurement shall be conducted based on the lower of the following two: (1) carrying amount before being classified as assets held for sale, adjusted according to the depreciation, amortization or impairment that should have been recognized if it had not been classified as held for sale; (2) recoverable amount.

When the non-current assets or disposal groups held for sale are derecognized, the unrecognized gains or losses shall be included in the current profit or loss.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

34. Discontinued operations

Discontinued operations refer to the components of the Group which meet one of the following conditions, which could be separately distinguished, and such components have been disposed of or classified as the held-for-sale category: (1) Such components represent an independent main business or a separate main operating area; (2) Such components are part of a related plan to dispose of an independent main business or a separate main operating area; (3) Such components are subsidiaries specially acquired for resale.

In the income statement, the Group added items such as "net profit from continuing operations" and "net profit from discontinued operations" under the item of "Net profit" to respectively reflect the profits or losses related to continuing operations and discontinued operations with the net amount after tax. Profits and losses related to discontinued operations shall be presented as profits or losses from discontinued operations. The presented profits or losses from discontinued operations shall cover the entire reporting period, not only the reporting period after the operations are recognized as discontinued operations.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

35. Measurement at fair value

The Group measures investment properties, derivative financial instruments, and equity instrument investments at fair value on each balance sheet date. Fair value refers to the price to be received for the sale of an asset or to be paid for the transfer of a liability by the market participants in the orderly transaction on the measurement date.

If the assets and liabilities are measured or disclosed at fair value in financial statements, the level to which the fair value belongs shall be determined based on the lowest level input that is significant for the whole fair value measurement: the inputs for Level 1 are the unadjusted quoted prices of identical assets or liabilities in the active market which can be obtained on the measurement date; the inputs for Level 2 are the inputs directly or indirectly observable for relevant assets or liabilities other than those for Level 1; the inputs for Level 3 are the inputs that are unobservable for relevant assets or liabilities.

On each balance sheet date, the Group reassesses the assets and liabilities recognized in the financial statements that are continuously measured at fair value to determine whether conversion occurs between levels of fair value measurements.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

36. Significant accounting judgments and estimates

The Group continuously evaluates the significant accounting estimates and key assumptions adopted based on historical experience and other factors, including reasonable expectations for future events. Major changes, if any, in the following significant accounting estimates and key assumptions may cause a material impact on the carrying amount of assets and liabilities in subsequent accounting years:

(1) Provision for bad debts of accounts receivable and other receivables. Estimate the allowance for impairment based on the ECLs of accounts receivable and other receivables. If any event or change in circumstances indicates that the relevant balance may not be recoverable, estimates are required to make provisions for accounts receivable and other receivables. If the expected figure differs from the original estimates, the related difference will affect the carrying amount of accounts receivable and other receivables and the impairment charge during the change period of estimates.

(2) Estimate of impairment of inventories. On the balance sheet date, the Group measures the inventories according to the lower of cost and net realizable value, and the net realizable value shall be calculated by utilizing assumptions and estimates. If the management revises the estimated selling price as well as the costs and expenses to be incurred until completion, it will affect the estimates of the net realizable value of inventories, and the difference will affect the provision for inventory impairment accrued.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

36. Significant accounting judgments and estimates (Continued)

(3) Estimation of impairment of long-term assets (excluding goodwill). When judging whether long-term assets are impaired, management mainly evaluates and analyzes from the following aspects: (i) whether events affecting asset impairment have occurred; (ii) whether the present value of expected cash flows from the continued use or disposal of the asset is lower than the carrying amount of the asset; and (iii) whether the important assumptions used in the present value of expected future cash flows are appropriate.

Changes in relevant assumptions used by the Group to determine impairment, such as assumptions on profitability, discount rates, and growth rates used in the present value of future cash flows method, may have a significant impact on the present value used in impairment testing and lead to impairment of the Group's above-mentioned long-term assets.

(4) Estimated useful life and estimated net residual value of fixed assets. The estimated useful life and estimated net residual value of fixed assets are estimated based on the previous actual useful life and the actual net residual value of fixed assets with similar properties and functions. During the use of fixed assets, the economic environment, technical environment, and other environments may have a great impact on the useful life and estimated net residual value of fixed assets. If the estimated useful life and the net residual value of fixed assets are different from the original estimates, the management will make appropriate adjustments.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

36. Significant accounting judgments and estimates (Continued)

(5) Fair value of financial assets. For financial instruments without an active market, the Group determines their fair value by various valuation techniques, including the discounted cash flow method. For financial assets that the Group is expressly restricted by law from disposing of within a specific period, their fair value is adjusted based on the market quotation and the characteristics of the instrument. In valuation, the Group needs to estimate the credit risk, market volatility, and correlation of itself and counterparties, and the changes in assumptions of these relevant factors will have an impact on the fair value of financial instruments.

(6) Share-based payments. Data on assumptions and risk factors involved in share-based payments. Changes in factors such as stock price fluctuations, employee turnover rates, exercise prices and conditions, service periods, and the number of grants may have an impact on the estimated expenses.

(7) Deferred income tax assets and deferred income tax liabilities. To the extent that there is probably enough taxable income to offset deductible losses, the Group recognizes the deferred tax assets with respect to all unused deductible losses. The management exercises significant judgment to estimate the timing and amount of future taxable income and to determine the recognized amount of deferred tax assets in combination with tax planning strategy.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

36. Significant accounting judgments and estimates (Continued)

(8) Income recognition. If the performance obligation is fulfilled within a certain period, the progress of performance is measured by the expenditures or inputs incurred by the Group to fulfill the performance obligation, which is determined based on the proportion of the cumulative costs incurred for each contract as of the balance sheet date to the estimated total costs. Significant estimates and judgments are required regarding costs incurred, estimated total costs, and contract recoverability.

37. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

None.

(2) Changes in significant accounting estimates

None.

V. TAXES

1. Main taxes and tax rates

Tax category	Taxation basis	Tax rate
VAT	Taxable value-added amount is the difference of VAT output calculated based on the income from sales of goods and rendering of taxable services according to tax laws less deductible VAT input of the current period	3%, 6%, 9%, 10%, 13%, 16%
City construction tax	Turnover tax actually paid	7%
Corporate income tax	Taxable income	15%, 25%

V. TAXES (CONTINUED)

1. Main taxes and tax rates (Continued)

Taxpayer's description for the tax rates of different corporate income taxes:

Name of taxpayer	Income tax rate
Harbin Electric Company Limited	15%
Harbin Turbine Company Limited	15%
Harbin Turbine Auxiliary Equipment Engineering Co., Ltd.	15%
Harbin Electric Machinery Company Limited	15%
Harbin Electric Machinery (Zhenjiang) Co., Ltd.	15%
Hadong National Hydropower Equipment National Engineering Research Center Co., Ltd.	15%
Harbin Research Institute of Large Electric Machinery Company Limited	15%
Harbin Power Equipment National Engineering Research Centre Co., Ltd.	15%
HE Harbin Power Plant Valve Company Limited	15%
HE Suzhou Douson Valve Co., Ltd.	15%
Harbin Boiler Company Limited	15%
Harbin Boiler Preheater Co., Ltd.	15%
Harbin Electric Corporation (QHD) Heavy Equipment Company Limited	15%
Harbin Electric International Company Limited	15%
Harbin Electric Science and Technology Company Limited	15%
Domestic subsidiaries	25%
Overseas subsidiaries	Calculated and paid per local tax rates

V. TAXES (CONTINUED)

2. Tax preference

(1) The Company's following subsidiaries have been recognized as high-tech enterprises by the Provincial Department of Science and Technology, the Provincial Department of Finance, and the State Taxation Bureau and are subject to a 15% income tax rate pursuant to Article 28 of the Enterprise Income Tax Law of the People's Republic of China: Harbin Turbine Company Limited, Harbin Turbine Auxiliary Equipment Engineering Co., Ltd., Harbin Electric Machinery Company Limited, Harbin Electric Machinery (Zhenjiang) Co., Ltd., Hadong National Hydropower Equipment National Engineering Research Center Co., Ltd., Harbin Research Institute of Large Electric Machinery Company Limited, Harbin Power Equipment National Engineering Research Centre Co., Ltd., HE Harbin Power Plant Valve Company Limited, HE Suzhou Douson Valve Co., Ltd., Harbin Boiler Company Limited, Harbin Boiler Preheater Co., Ltd., Harbin Electric Corporation (QHD) Heavy Equipment Company Limited, and Harbin Electric Science and Technology Company Limited. Harbin Electric International Company Limited has been granted the status of technologically advanced service enterprise and, in accordance with Document CS [2009] No. 63, is subject to a 15% enterprise income tax rate.

V. TAXES (CONTINUED)

2. Tax preference (Continued)

(2) According to the Announcement on the Addition, Credit, and Deduction Policies for Value-added Tax of Advanced Manufacturing Enterprises (Announcement No. 43 [2023] of the Ministry of Finance and State Taxation Administration), from January 1, 2023 to December 31, 2027, advanced manufacturing enterprises are allowed to offset the VAT payable by a further 5% in addition to the current deductible input tax. The above tax preferences are applicable to the following subsidiaries of the Company: HE Harbin Power Plant Valve Company Limited, HE Suzhou Douson Valve Co., Ltd., Harbin Turbine Company Limited, Harbin Boiler Company Limited, Harbin Boiler Preheater Company Limited, Harbin Electric Machinery Company Limited, Harbin Electric Machinery (Zhenjiang) Co., Ltd., and Harbin Electric Corporation (QHD) Heavy Equipment Company Limited.

(3) In accordance with Article 3 of the Announcement on Tax and Fee Policies for Further Supporting the Development of Small and Micro Enterprises and Individual Businesses of the Ministry of Finance and the State Taxation Administration (State Taxation Administration Announcement [2023] No. 12), from January 1, 2023 to December 31, 2027, for small low-profit enterprises, the amount of taxable income is calculated at a reduced rate of 25%, and corporate income tax is paid at the rate of 20%. During the current period, the Company's subsidiaries HE Group Biomass Fuel (Fuyuan) Co., Ltd., Beijing Haguo Science and Trade Co., Ltd. enjoyed the preferential corporate income tax policy for small low-profit enterprises.

V. TAXES (CONTINUED)

2. Tax preference (Continued)

(4) In accordance with Article 88 of the Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China, eligible environmental protection, energy conservation and water conservation projects, including public sewage treatment, public garbage treatment, comprehensive development and utilization of biogas, energy conservation and emission reduction technological transformation, and seawater desalination, are entitled to the corporate income tax preference of "three-year exemption and three-year 50% reduction." Jilin Zesheng Environmental Protection Engineering Co., Ltd., a subsidiary of the Company, is eligible for the above tax preference.

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise stated, among the following disclosed data in the financial statements, "beginning" refers to January 1, 2026; "ending" refers to June 30, 2026; "current period" refers to the period from January 1 to June 30, 2026; "prior period" refers to the period from January 1 to June 30, 2025; and the monetary unit is RMB.

1. Monetary fund

Item	Ending balance	Beginning balance
Cash on hand	**1,683,444.15**	818,719.51
Cash in bank	**19,009,477,248.48**	14,192,718,603.74
Other monetary funds	**1,097,888,975.12**	1,052,391,392.96
Total	**20,109,049,667.75**	15,245,928,716.21
Including: Total funds held overseas	**1,824,856,153.21**	700,617,884.03

Note: Other monetary funds primarily consist of statutory reserves, bill deposits, and guarantee deposits.

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

2. Accounts receivable

(1) Accounts receivable listed according to ageing

Ageing	Ending carrying amount	Beginning carrying amount
Within 1 year (including 1 year)	4,613,980,187.21	4,530,416,926.70
1-2 years	1,902,307,457.62	1,372,137,203.96
2-3 years	636,128,329.85	890,130,956.15
More than 3 years	2,892,365,650.83	2,523,325,930.98
Subtotal	10,044,781,625.51	9,316,011,017.79
Less: Provision for bad debts	3,791,813,297.66	3,556,790,349.19
Total	6,252,968,327.85	5,759,220,668.60

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

2. Accounts receivable (Continued)

(2) Classified presentation of accounts receivable according to bad debt accrual method (Continued)

Category	Ending balance				
	Carrying amount		Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision (%)	
On an individual basis	1,071,700,096.72	10.67	948,757,357.26	88.53	122,942,739.46
Provision for bad debts made by portfolio	8,973,081,528.79	89.33	2,843,055,940.40	–	6,130,025,588.39
Including: Ageing portfolio	8,966,778,775.02	89.27	2,843,055,940.40	31.71	6,123,722,834.62
Portfolio of related parties	6,302,753.77	0.06	0.00	0.00	6,302,753.77
Total	10,044,781,625.51	100.00	3,791,813,297.66	–	6,252,968,327.85

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

2. Accounts receivable (Continued)

(2) Classified presentation of accounts receivable according to bad debt accrual method (Continued)

Category	Beginning balance				
	Carrying amount		Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision (%)	
On an individual basis	1,199,063,221.29	12.87	990,012,752.01	82.57	209,050,469.28
Provision for bad debts made by portfolio	8,116,947,796.50	87.13	2,566,777,597.18	–	5,550,170,199.32
Including: Ageing portfolio	8,109,496,025.61	87.05	2,566,777,597.18	31.65	5,542,718,428.43
Portfolio of related parties	7,451,770.89	0.08	0.00	0.00	7,451,770.89
Total	9,316,011,017.79	100.00	3,556,790,349.19	–	5,759,220,668.60

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

2. Accounts receivable (Continued)

(2) Classified presentation of accounts receivable according to bad debt accrual method (Continued)

1) Provision for bad debt made individually for accounts receivable

	Ending balance			
Description	**Carrying amount**	**Provision for bad debts**	**Provision** *(%)*	**Reason for provision**
Ministry of Water Resources and Irrigation of the Republic of Sudan	269,302,351.16	269,302,351.16	100.00	Expected to be irrecoverable
Coastal Energy Private Limited	130,174,146.90	130,174,146.90	100.00	Expected to be irrecoverable
Kolin, owner of the Türkiye Soma Project	85,034,070.02	85,034,070.02	100.00	Expected to be irrecoverable
Dehui Ruilong Biomass Power Generation Co., Ltd.	76,537,715.03	44,215,120.92	57.77	Estimated recoverable
Fuyuan Ruilong Biomass Power Generation Co., Ltd.	56,745,986.84	28,499,410.74	50.22	Estimated recoverable
Jiangsu Delong Nickel Industry Co., Ltd.	53,280,000.00	53,280,000.00	100.00	Expected to be irrecoverable
National Electricity Corporation of Sudan	53,123,862.42	53,123,862.42	100.00	Expected to be irrecoverable

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

2. Accounts receivable (Continued)

(2) Classified presentation of accounts receivable according to bad debt accrual method (Continued)

1) Provision for bad debt made individually for accounts receivable (Continued)

Description	Ending balance			
	Carrying amount	Provision for bad debts	Provision (%)	Reason for provision
Wangkui Ruilong Biomass Power Generation Co., Ltd.	52,058,540.07	17,883,001.84	34.35	Estimated recoverable
China Energy Engineering Group Tianjin Electric Power Construction Co., Ltd.	49,000,000.00	39,200,000.00	80.00	Estimated recoverable
Ministry of Electricity and Dams of Sudan	37,815,812.92	37,815,812.92	100.00	Expected to be irrecoverable
Ordos Green Energy Photoelectric Co., Ltd.	37,582,892.87	37,582,892.87	100.00	Expected to be irrecoverable
Ningxia Changyi Clean Energy Co., Ltd.	25,748,000.00	25,748,000.00	100.00	Expected to be irrecoverable
Sinosplendor Engineering & Technology Co., Ltd.	21,880,000.00	21,880,000.00	100.00	Expected to be irrecoverable
Datang Environment Industry Group Co., Ltd. Leizhou Project Branch	21,507,908.73	21,507,908.73	100.00	Expected to be irrecoverable

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

2. Accounts receivable (Continued)

(2) Classified presentation of accounts receivable according to bad debt accrual method (Continued)

1) Provision for bad debt made individually for accounts receivable (Continued)

	Ending balance			
Description	**Carrying amount**	**Provision for bad debts**	**Provision (%)**	**Reason for provision**
Beijing Haoshenghe Biotechnology Co., Ltd.	17,236,278.00	17,236,278.00	100.00	Expected to be irrecoverable
Sudanese Thermal Power Generation Company, Ministry of Dams	15,507,316.62	15,507,316.62	100.00	Expected to be irrecoverable
Others	69,165,215.14	50,767,184.12	–	–
Total	1,071,700,096.72	948,757,357.26	–	–

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

2. Accounts receivable (Continued)

(2) Classified presentation of accounts receivable according to bad debt accrual method (Continued)

2) Provision for bad debts of accounts receivable accrued as per portfolio – ageing portfolio

Ageing	Ending balance		
	Carrying amount		
	Amount	Proportion (%)	Provision for bad debts
Within 1 year (including 1 year)	4,580,189,443.91	51.08	216,492,176.06
1-2 years	1,675,970,781.10	18.69	418,992,695.31
2-3 years	620,918,808.23	6.92	310,459,404.40
More than 3 years	2,089,699,741.78	23.31	1,897,111,664.63
Total	8,966,778,775.02	100.00	2,843,055,940.40

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

2. Accounts receivable (Continued)

(2) Classified presentation of accounts receivable according to bad debt accrual method (Continued)

2) Provision for bad debts of accounts receivable accrued as per portfolio – ageing portfolio (Continued)

	Beginning balance		
	Carrying amount		
Ageing	Amount	Proportion (%)	Provision for bad debts
Within 1 year (including 1 year)	4,213,563,319.88	51.96	208,991,833.60
1-2 years	1,321,785,758.89	16.30	330,446,440.05
2-3 years	796,765,938.59	9.83	398,382,969.40
More than 3 years	1,777,381,008.25	21.91	1,628,956,354.13
Total	8,109,496,025.61	100.00	2,566,777,597.18

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

2. Accounts receivable (Continued)

(3) Movement of bad debt provision made, recovered, or reversed for accounts receivable in the current period

Category	Beginning balance	Movements: Provision	Movements: Recovery or reversal	Movements: Transfer or write-offs	Movements: Others	Ending balance
Provision for bad debts	3,556,790,349.19	251,470,411.70	16,471,242.26	0.00	23,779.03	**3,791,813,297.66**

Significant recovery or reversal of bad debt provision for the current period:

Company name	Recovery or reversal	Reason for reversal	Method	Basis and rationality for determining the proportion of original provision for bad debts
Beijing Haoshenghe Biotechnology Co., Ltd.	12,124,640.60	Recovery	Recovery	Collection difficulties

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

2. Accounts receivable (Continued)

(4) Accounts receivable and contract assets with top five ending balances collected as per the borrowers

Company name	Ending balance of accounts receivable	Ending balance of contract assets	Ending balance of accounts receivable and contract assets	Proportion in total ending balance of accounts receivable and contract assets	Ending balance of the provision for bad debts for accounts receivable and contract assets
The 703rd Research Institute of China State Shipbuilding Corporation Limited	329,324,892.16	175,781,291.60	505,106,183.76	2.28	95,274,982.30
CHINERGY Co., Ltd.	226,355,903.78	247,227,356.76	473,583,260.54	2.14	11,317,795.18
China National Water Resources & Electric Power Materials & Equipment Group Co., Ltd.	145,027,730.59	303,945,875.86	448,973,606.45	2.03	16,733,536.54
China Nuclear Power Engineering Co., Ltd. (CGN)	27,299,710.01	406,756,116.24	434,055,826.25	1.96	1,451,041.61
Hassyan Coal-fired Power Plant Project Company	0.00	517,289,419.02	517,289,419.02	2.34	252,276,925.32
Total	728,008,236.54	1,651,000,059.48	2,379,008,296.02	10.75	377,054,280.95

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

3. Prepayments

(1) Ageing of prepayments

Item	Ending balance		
	Amount	Proportio *(%)*	Provision for bad debts
Within 1 year (including 1 year)	5,617,135,474.79	76.04	0.00
1-2 years	1,501,351,244.10	20.32	0.00
2-3 years	211,754,469.43	2.87	0.00
More than 3 years	57,295,422.43	0.77	6,799,892.41
Total	7,387,536,610.75	100.00	6,799,892.41

Item	Beginning balance		
	Amount	Proportion *(%)*	Provision for bad debts
Within 1 year (including 1 year)	5,047,686,971.29	64.29	0.00
1-2 years	2,183,923,052.67	27.82	0.00
2-3 years	394,904,642.04	5.03	0.00
More than 3 years	224,341,887.78	2.86	6,799,892.41
Total	7,850,856,553.78	100.00	6,799,892.41

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

3. Prepayments (Continued)

(2) Top five recipients of prepayments by closing balances

Company name	Ending balance	Proportion in total ending balance of prepayments *(%)*
GEVernovaParts&ProductsGmbh	605,382,427.52	8.19
China First Heavy Machinery Co., Ltd.	473,526,486.53	6.41
FOMASS.p. A.	243,333,521.84	3.29
POWELL TECHNOLOGY ENGINEERING CO. L	211,108,497.62	2.86
Japan Steel Works	160,031,200.00	2.17
Total	1,693,382,133.51	22.92

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

4. Other receivables

Item	Ending balance	Beginning balance
Interest receivable	15,156,565.09	10,941,635.51
Dividends receivable	12,874,821.31	8,842,879.26
Other receivables	1,266,306,260.80	1,028,521,151.64
Total	1,294,337,647.20	1,048,305,666.41

4.1 Interest receivable

Item	Ending balance	Beginning balance
Interest from entrusted loans and others	20,547,672.29	16,332,742.71
Less: Provision for bad debts	5,391,107.20	5,391,107.20
Total	15,156,565.09	10,941,635.51

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

4. Other receivables (Continued)

4.2 Dividends receivable

(1) Category

Item	Ending balance	Beginning balance
Harbin Huitong Electric Power Engineering Co., Ltd.	8,842,879.26	8,842,879.26
Harbin Ruifeng New Energy Co., Ltd.	4,031,942.05	0.00
Total	12,874,821.31	8,842,879.26

(2) Significant dividends receivable aged over 1 year

Item	Ending balance	Ageing	Reason for non-recovery	Whether impairment has occurred and the judgment basis
Harbin Huitong Electric Power Engineering Co., Ltd.	8,842,879.26	Within 3 years	Payment procedures in progress	No

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

4. Other receivables (Continued)

4.3 Other receivables

(1) Other receivables listed as per ageing

Ageing	**Ending carrying amount**	Beginning carrying amount
Within 1 year (including 1 year)	**714,216,964.73**	434,757,966.98
1-2 years	**75,599,651.81**	116,969,504.23
2-3 years	**115,060,823.53**	118,679,981.74
More than 3 years	**659,213,526.06**	661,766,275.62
Subtotal	**1,564,090,966.13**	1,332,173,728.57
Less: Provision for bad debts	**297,784,705.33**	303,652,576.93
Total	**1,266,306,260.80**	1,028,521,151.64

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

4. Other receivables (Continued)

4.3 Other receivables (Continued)

(2) Other receivables with provision for bad debt made according to the general model of ECLs

Provision for bad debts	Stage 1 12-month ECL	Stage 2 Lifetime ECL (no credit impairment occurs)	Stage 3 Lifetime ECL (credit impairment has occurred)	Total
Beginning balance	171,766,219.50	0.00	131,886,357.43	303,652,576.93
Beginning balance in the current period	–	–	–	–
– Transferred to Stage 2	0.00	0.00	0.00	0.00
– Transferred to Stage 3	0.00	0.00	0.00	0.00
– Transferred back to Stage 2	0.00	0.00	0.00	0.00
– Reversal to Stage 1	0.00	0.00	0.00	0.00
Provision	-5,251,998.81	0.00	-615,872.79	-5,867,871.60
Reversals	0.00	0.00	0.00	0.00
Transfers	0.00	0.00	0.00	0.00
Write-offs	0.00	0.00	0.00	0.00
Other movements	0.00	0.00	0.00	0.00
Ending balance	166,514,220.69	0.00	131,270,484.64	297,784,705.33

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

4. Other receivables (Continued)

4.3 Other receivables (Continued)

(3) Movement of bad debt provision accrued, recovered, or reversed under other receivables

Category	Beginning balance	Movements: Provision	Movements: Recovery or reversal	Movements: Transfer or write-offs	Movements: Others	Ending balance
Provision for bad debts	303,652,576.93	-5,867,871.60	0.00	0.00	0.00	297,784,705.33

(4) Other receivables with top five ending balances collected as per the borrowers

Company name	Nature of payment	Nature of payment	Ageing	Proportion in total ending balance of other receivables (%)	Provision for bad debts Ending balance
The Second Construction Co., Ltd. of China Construction Third Engineering Bureau and CSCECMIDDLEEASTLLC	Advances offered for others	357,656,070.91	3-4 years	22.87	0.00
Zhongchengxiang (Yantai) LNG Co., Ltd.	Security deposit, etc.	96,296,339.56	2-3 years	6.16	0.00
Harbin High-tech Industrial Development Zone Tax Service, State Taxation Administration	Tax reimbursement for export receivable	95,427,344.14	Within 1 year	6.10	0.00
WAPDA	Customs clearance reserve	41,688,110.98	Within 2 years	2.67	0.00
General Electric (Switzerland) GMBH	Transaction payments	34,054,500.00	Within 1 year	2.18	0.00
Total	–	625,122,365.59	–	39.98	0.00

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

5. Inventories

(1) Category of inventories

	Ending balance		
Item	Carrying amount	Provision for inventory impairment/Provision for impairment of contract performance cost	Carrying amount
Raw materials	4,059,797,326.82	311,714,112.35	3,748,083,214.47
Goods in process	16,467,902,916.16	286,669,638.84	16,181,233,277.32
Goods in stock	143,430,102.82	27,748,746.51	115,681,356.31
Turnover materials	33,381,952.03	1,706,435.88	31,675,516.15
Contract performance cost	309,362,469.96	135,595,583.25	173,766,886.71
Total	21,013,874,767.79	763,434,516.83	20,250,440,250.96

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

5. Inventories (Continued)

(1) Category of inventories (Continued)

	Beginning balance		
Item	Carrying amount	Provision for inventory impairment/Provision for impairment of contract performance cost	Carrying amount
Raw materials	4,654,905,667.01	314,788,117.92	4,340,117,549.09
Goods in process	14,604,044,139.79	293,103,983.46	14,310,940,156.33
Goods in stock	148,979,087.25	31,804,182.31	117,174,904.94
Turnover materials	35,892,759.37	1,790,565.58	34,102,193.79
Contract performance cost	189,450,625.79	135,595,583.25	53,855,042.54
Total	19,633,272,279.21	777,082,432.52	18,856,189,846.69

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

5. Inventories (Continued)

(2) *Provision for inventory impairment/contract performance cost impairment*

Item	Beginning balance	Increase during the period	
		Provision	Others
Raw materials	314,788,117.92	-2,197,794.10	0.00
Goods in process	293,103,983.46	-5,798,757.04	0.00
Goods in stock	31,804,182.31	-2,918,043.15	0.00
Turnover materials	1,790,565.58	0.00	0.00
Contract performance cost	135,595,583.25	0.00	0.00
Total	777,082,432.52	-10,914,594.29	0.00

Item	Decrease during the period		Decrease during the period
	Reversal or write-off	Others	Ending balance
Raw materials	876,211.47	0.00	311,714,112.35
Goods in process	635,587.58	0.00	286,669,638.84
Goods in stock	1,137,392.65	0.00	27,748,746.51
Turnover materials	84,129.70	0.00	1,706,435.88
Contract performance cost	0.00	0.00	135,595,583.25
Total	2,733,321.40	0.00	763,434,516.83

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

6. Contract assets

(1) Contract assets

	Ending balance		
Item	**Carrying amount**	**Provision for bad debts**	**Carrying amount**
Quality guarantee deposit	**5,189,389,439.71**	**890,313,930.53**	**4,299,075,509.18**
Completed but unsettled projects	**6,898,178,785.89**	**493,328,662.21**	**6,404,850,123.68**
Total	**12,087,568,225.60**	**1,383,642,592.74**	**10,703,925,632.86**

	Beginning balance		
Item	Carrying amount	Provision for bad debts	Carrying amount
Quality guarantee deposit	7,210,124,889.92	875,193,523.50	6,334,931,366.42
Completed but unsettled projects	3,250,088,234.81	506,740,520.94	2,743,347,713.87
Total	10,460,213,124.73	1,381,934,044.44	9,078,279,080.29

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

6. Contract assets (Continued)

(2) Bad debt provision for contract assets

		Movements	
Item	Beginning balance	Provision	Recovery or reversal
Provision for bad debts	1,381,934,044.44	1,708,548.30	0.00

	Movements		
Item	Transfer/write-off during the period	Other movements	**Ending balance**
Provision for bad debts	0.00	0.00	**1,383,642,592.74**

7. Other current assets

Item	**Ending balance**	Beginning balance
Other debt investments	**3,972,097,536.79**	3,853,753,632.00
Input tax to be deducted	**525,224,506.20**	475,355,648.91
Entrusted loan	**162,358,970.50**	162,358,970.50
Prepaid tax	**1,592,597.91**	8,540,856.18
Subtotal	**4,661,273,611.40**	4,500,009,107.59
Less: Provision for bad debts	**107,358,970.50**	107,358,970.50
Total	**4,553,914,640.90**	4,392,650,137.09

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

8. Changes in long-term assets such as investment properties, fixed assets, and intangible assets

Investment properties of the Group primarily comprise plants & buildings and land use rights; fixed assets primarily comprise plants & buildings, machinery equipment, transportation equipment, office equipment, electronic equipment, and others; intangible assets primarily comprise land use rights, non-patented technologies, patented technologies, software, and franchise rights.

For the six months ended June 30, 2026, the Group sold certain plants and machinery equipment with a carrying amount of RMB138,688.96 (for the six months ended June 30, 2025: RMB14,572,526.63) for proceeds of RMB55,336.28, resulting in an income from disposal of RMB49,306.90 (for the six months ended June 30, 2025: income from disposal of RMB2,408,683.04).

For the six months ended June 30, 2026, the Group incurred capital expenditures of RMB509,876,116.39 (for the six months ended June 30, 2025: RMB625,426,005.07), primarily allocated to construction in progress, machinery equipment, transportation equipment, and others for enhancing production capacity.

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

9. Other non-current assets

Item	Ending balance		
	Carrying amount	Impairment provision	Carrying amount
Prepayments for acquisition of intangible assets	224,481,091.68	0.00	224,481,091.68
Special funds for college students	38,365,000.00	0.00	38,365,000.00
Dubai Hassyan Project Investment Company	207,145,541.40	0.00	207,145,541.40
Total	469,991,633.08	0.00	469,991,633.08

Item	Beginning balance		
	Carrying amount	Impairment provision	Carrying amount
Prepayments for acquisition of intangible assets	216,301,271.21	0.00	216,301,271.21
Special funds for college students	31,340,822.35	0.00	31,340,822.35
Dubai Hassyan Project Investment Company	222,173,423.83	0.00	222,173,423.83
Total	469,815,517.39	0.00	469,815,517.39

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

10. Short-term borrowings

Classification of short-term borrowings

Category of borrowings	Ending balance	Beginning balance
Mortgaged loans	88,599,276.47	87,356,760.34
Credit borrowings	3,557,531,096.96	3,770,814,285.53
Total	3,646,130,373.43	3,858,171,045.87

11. Accounts payable

Presentation of accounts payable

Item	Ending balance	Beginning balance
Within 1 year (including 1 year)	14,093,283,290.29	10,290,219,613.15
1-2 years	2,106,277,714.43	1,759,535,046.65
2-3 years	913,803,674.63	627,614,853.29
More than 3 years	1,557,645,236.67	1,221,730,257.02
Total	18,671,009,916.02	13,899,099,770.11

Note: The ageing of accounts payable is calculated from the time when the supplier completes its performance.

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

12. Contract liabilities

(1) Contract liabilities

Item	Ending balance	Beginning balance
Advance contract payment	**37,037,406,457.15**	34,084,749,651.29

Note: As of January 1, 2026, the amount of revenue recognized during the reporting period included in contract liabilities was RMB25,503,781,700.

(2) Significant contract liabilities aged over 1 year

Company name	Ending balance	Reasons for not repaying or not transferring
SDIC Jineng (Zhoushan) Gas Power Co., Ltd.	**497,332,743.36**	Not yet settled
SDIC Jineng (Zhoushan) Gas Power Co., Ltd.	**497,332,743.36**	Not yet settled
Manzhouli Dalaihu Thermal Power Co., Ltd.	**323,020,000.00**	Not yet settled
China Nuclear Power Engineering Co., Ltd.	**275,728,019.64**	Not yet settled
China National Water Resources & Electric Power Materials & Equipment Group Co., Ltd.	**262,844,917.65**	Not yet settled
Fujian Mintou Yong'an Pumped Storage Co., Ltd.	**232,026,112.15**	Not yet settled
North Huajin Refining And Petrochemical Co., Ltd.	**216,622,000.00**	Not yet settled
Guangdong Energy Luhe Storage Generation Co., Ltd.	**212,384,152.03**	Not yet settled

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

12. Contract liabilities (Continued)

(2) Significant contract liabilities aged over 1 year (Continued)

Company name	Ending balance	Reasons for not repaying or not transferring
Guilin Pumped Storage Power Generation Co., Ltd.	205,887,292.36	Not yet settled
China United Gas Turbine Technology Co., Ltd.	175,716,814.10	Not yet settled
China Resources Power (Shenzhen-Shanwei Special Cooperation Zone) Co., Ltd.	162,174,625.79	Not yet settled
Guoneng Jilin Thermal Power Co., Ltd.	154,836,766.54	Not yet settled
PowerChina Zhongnan Engineering Corporation Limited	150,664,477.10	Not yet settled
The 703rd Research Institute of China State Shipbuilding Corporation Limited	148,049,902.43	Not yet settled
United Chattogram Power Limited	127,969,153.81	Not yet settled
Power China Kunming Engineering Corporation Limited	123,159,509.85	Not yet settled
Shandong Taishan Pumped Storage Co., Ltd.	120,652,764.94	Not yet settled
China Electric Power Engineering Consulting Group Northwest Electric Power Design Institute Co., Ltd.	110,558,942.38	Not yet settled
Heilongjiang Shangzhi Pumped Storage Co., Ltd.	102,201,856.81	Not yet settled
Total	4,214,821,117.50	–

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

13. Non-current liabilities due within one year

Item	Ending balance	Beginning balance
Long-term loans due within one year	336,315,929.73	313,252,605.47
Lease liabilities due within one year	6,591,951.61	9,525,531.85
Total	342,907,881.34	322,778,137.32

14. Share capital

		Increase (+)/decrease (-) during the period					
Item	Beginning balance	New shares issued	Bonus issue	Shares converted from reserves	Others	Subtotal	Ending balance
Harbin Electric Corporation	1,560,705,000.00	0.00	0.00	0.00	0.00	0.00	1,560,705,000.00
Overseas listed and tradable shares	675,571,000.00	0.00	0.00	0.00	0.00	0.00	675,571,000.00
Total	2,236,276,000.00	0.00	0.00	0.00	0.00	0.00	2,236,276,000.00

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

15. Operating revenues and costs

(1) Determination basis and accounting policy of reportable segments

The Company has structured its main businesses into three operational systems–a new-type power system centered on new energy, a clean and efficient industrial system, and a green, low-carbon drive system–based on its internal organizational structure, management requirements, and internal reporting system. At the same time, the finance company and other non-main businesses are treated as a separate business segment. Each reportable segment of the Company provides distinct products or services, or operates in different geographical regions. As each segment requires unique technologies or market strategies, the Company's management individually oversees the operating activities of each reportable segment and periodically evaluates their operating results to determine resource allocation and assess their performance.

Inter-segment transfer prices are determined based on actual transaction prices. Indirect expenses attributable to segments are allocated proportionally according to revenue. Assets are allocated based on segment operations and physical location, while segment liabilities include liabilities attributable to the segment's operating activities. Where liabilities are jointly incurred by multiple operating segments, such shared liabilities are allocated to these segments in proportion to the expenses borne by each.

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

15. Operating revenues and costs (Continued)

(2) *Financial information of reportable segments*

1) Segment financial information from January to June 2026

Item	New-type power system centered on new energy	Green, low-carbon drive system	Clean and efficient industrial system	Other operations	Offset	Total
I. Operating revenue	17,216,100,641.08	277,017,857.30	2,664,346,936.68	6,371,975,028.93	-1,532,617,389.85	24,996,823,074.14
Including: External transaction revenue	15,940,555,737.05	277,017,857.30	2,620,672,112.51	6,158,577,367.28	0.00	24,996,823,074.14
Intra-segment transaction revenue	1,275,544,904.03	0.00	43,674,824.17	213,397,661.65	-1,532,617,389.85	0.00
II. Investment income from JVs and associates	38,167,092.99	614,132.46	5,906,702.07	14,126,297.73	0.00	58,814,225.25
III. Asset impairment loss	5,662,997.10	91,121.18	876,399.91	2,095,972.64	0.00	8,726,490.83
IV. Credit impairment losses	-138,927,578.68	-2,235,431.88	-21,500,296.52	-51,419,486.94	-17,000,000.00	-231,082,794.02
V. Depreciation and amortization expenses	342,296,611.82	5,507,767.17	52,973,489.65	126,689,864.83	834,590.25	528,302,323.72
VI. Total profit	2,218,006,254.59	35,689,111.78	343,256,483.75	820,922,272.87	-1,361,176,736.83	2,056,697,386.16
VII. Income tax expenses	217,242,031.65	3,495,560.54	33,620,164.84	80,405,013.30	0.00	334,762,770.33
VIII. Net profit	2,000,764,222.94	32,193,551.23	309,636,318.91	740,517,259.58	-1,361,176,736.83	1,721,934,615.83
IX. Total assets	82,224,112,106.54	1,323,037,534.98	12,724,923,359.80	30,432,558,454.53	-39,769,696,442.93	86,934,935,012.92
X. Total liabilities	62,381,066,341.80	1,003,750,483.01	9,654,032,959.01	23,088,305,842.00	-28,639,618,293.04	67,487,537,332.78

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

15. Operating revenues and costs (Continued)

(2) Financial information of reportable segments (Continued)

2) Segment financial information from January to June 2025

Item		New-type power system centered on new energy	Green, low-carbon drive system	Clean and efficient industrial system	Other operations	Offset	Total
I.	Operating revenue	15,900,846,674.42	170,756,824.91	2,287,264,536.10	6,099,171,846.57	-1,761,935,703.53	22,696,104,178.47
	Including: External transaction revenue	14,463,181,536.87	170,756,824.91	2,259,322,812.47	5,802,843,004.22	0.00	22,696,104,178.47
	Intra-segment transaction revenue	1,437,665,137.55	0.00	27,941,723.63	296,328,842.35	-1,761,935,703.53	0.00
II.	Investment income from JVs and associates	28,025,566.20	300,962.38	4,031,350.34	10,749,914.64	0.00	43,107,793.56
III.	Asset impairment loss	-60,640,522.76	-651,209.55	-8,722,863.63	-23,260,206.00	0.00	-93,274,801.94
IV.	Credit impairment losses	-124,969,605.94	-1,342,029.99	-17,976,309.92	-47,935,252.62	-4,262,500.00	-196,485,698.47
V.	Depreciation and amortization expenses	251,164,329.21	2,697,216.33	36,128,847.39	96,340,429.99	-686,187.73	385,644,635.19
VI.	Total profit	1,240,244,362.06	13,318,799.54	178,403,515.46	475,727,088.68	-680,258,050.28	1,227,435,715.46
VII.	Income tax expenses	111,238,839.50	1,194,577.33	16,001,201.56	42,668,469.93	0.00	171,103,088.32
VIII.	Net profit	1,129,005,522.56	12,124,222.21	162,402,313.90	433,058,618.75	-680,258,050.28	1,056,332,627.14
IX.	Total assets	79,265,508,636.10	851,220,495.15	11,401,983,212.06	30,404,290,323.43	-41,512,969,677.32	80,410,032,989.42
X.	Total liabilities	61,110,911,410.96	656,260,978.65	8,790,526,900.93	23,440,635,459.72	-30,409,850,127.35	63,588,484,622.91

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

16. Administrative expenses

Item	Current period	Prior period
Employee benefits	386,241,114.48	381,714,576.48
Repair expenses	151,169,364.98	64,413,040.40
Depreciation and amortization expenses	116,332,784.86	109,964,713.77
Business travel expense	41,424,100.74	29,963,632.70
Labor service outsourcing expenses	25,040,722.25	23,170,180.09
Transportation expenses	10,699,992.84	13,083,758.64
Intermediary agency fee	10,210,293.78	7,284,523.03
Utilities expenses	9,026,875.29	8,533,346.85
Office expenses	8,426,348.72	10,434,695.56
Test and inspection expenses	8,169,483.55	5,277,274.23
Property management fees	7,896,579.09	7,536,088.64
Consulting service fee	7,788,345.85	14,308,604.45
Working funds for Party building	4,737,196.70	10,445,274.62
Advertising expenses	3,769,009.81	2,960,219.58
Rental expenses	3,155,398.72	6,991,745.86
Labor protection expenses	2,754,909.93	3,787,490.62
Business entertainment expenses	2,662,564.19	5,048,486.52
Others	62,374,784.58	53,468,212.28
Total	861,879,870.36	758,385,864.32

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

17. Financial expenses

Item	Current period	Prior period
Interest expenses	48,899,944.72	70,434,251.46
Less: Interest income	24,804,068.40	19,210,740.05
Add: Exchange loss	105,109,077.80	78,741,721.80
Bank service charges	13,022,141.23	15,880,866.84
Total	142,227,095.35	145,846,100.05

18. Credit impairment loss

Item	Current period	Prior period
Bad debt loss	-229,131,297.84	-164,647,350.97
Impairment loss of other debt investments	-4,451,496.18	-31,838,347.50
Other impairment losses	2,500,000.00	0.00
Total	-231,082,794.02	-196,485,698.47

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

19. Asset impairment loss

Item	Current period	Prior period
Inventory impairment losses	10,914,594.29	-30,870,653.12
Impairment loss of contract assets	-1,708,548.30	-62,094,275.36
Impairment loss of fixed assets	-479,555.16	-309,873.46
Total	8,726,490.83	-93,274,801.94

20. Assets with ownership and right of use restricted

	Ending balance		
Item	Carrying amount	Carrying amount	Restrictions
Monetary fund	978,338,592.46	978,338,592.46	Statutory deposit reserves with the central bank
Monetary fund	111,788,005.49	111,788,005.49	Margin for acceptance bills
Monetary fund	7,762,377.17	7,762,377.17	Others
Construction in progress	221,486.25	221,486.25	Mortgaged loans
Fixed assets	254,656,521.63	254,656,521.63	Mortgage contract with maximum amount
Intangible assets	21,070,002.64	21,070,002.64	Mortgage contract with maximum amount
Long-term receivables	448,776,887.89	448,776,887.89	Secure loans
Total	1,822,613,873.53	1,822,613,873.53	–

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

20. Assets with ownership and right of use restricted (Continued)

	Beginning		
Item	Carrying amount	Carrying amount	Restrictions
Monetary fund	937,371,898.55	937,371,898.55	Statutory deposit reserves with the central bank
Monetary fund	107,657,169.45	107,657,169.45	Margin for acceptance bills
Monetary fund	7,362,324.96	7,362,324.96	Others
Construction in progress	221,486.25	221,486.25	Mortgaged loans
Fixed assets	263,572,417.75	263,572,417.75	Mortgage contract with maximum amount
Intangible assets	21,370,287.71	21,370,287.71	Mortgage contract with maximum amount
Long-term receivables	390,673,559.57	390,673,559.57	Secure loans
Total	1,728,229,144.24	1,728,229,144.24	–

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

21. Earnings before interest, tax, depreciation and amortization

Item	Current period
Net profit	1,721,934,615.83
Income tax expenses	334,762,770.33
Depreciation of fixed assets accrued	392,556,035.24
Amortization of intangible assets accrued	132,118,542.27
Amortization of long-term deferred expenses accrued	3,627,746.21
Interest and investment income	100,090,781.60
Interest income of Finance Company	197,665,182.09
Interest expenses	48,899,944.72
Interest expenses of Finance Company	3,248,417.72
Earnings before interest, tax, depreciation and amortization	2,339,392,108.63

22. Dividends

The Board of Directors does not recommend the payment of an interim dividend for the six months ended June 30, 2026. The dividend per share in 2025 was RMB0.358.

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Group faces various financial instrument risks in its daily activities, mainly including credit risk, liquidity risk, and market risk (including exchange rate risk, interest rate risk, and commodity price risk). The main financial instruments of the Group include monetary funds, equity investments, debt investments, loans, accounts receivable, and accounts payable. The risks concerning these financial instruments, as well as the risk management measures applied to mitigate these risks, are stated as follows:

The Board of Directors is responsible for the planning and establishment of the Group's risk management structure, the development of the Group's risk management policies and guidelines, and the monitoring of the implementation of risk management measures. The Group has developed risk management policies to identify and analyze the risks faced by the Group. These risk management policies specify specific risks, covering many aspects of market risk, credit risk, and liquidity risk management. The Group regularly evaluates the market environment and changes in the Group's operating activities to determine whether the risk management policies and systems are updated. The Group diversifies the risk of financial instruments through appropriate diversified investments and business combinations and reduces the risk of focusing on any single industry, specific region, or specific counterparty by developing appropriate risk management policies.

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Risk management objectives and policies

The Group's risk management aims to achieve a proper balance between risk and benefit, to minimize the negative effect of risks on the business performance of the Group, and to maximize the interest of shareholders and other equity investors. Based on the objective of risk management, the basic strategy of the Group's risk management is to determine and analyze all risks faced by the Group, to set up an appropriate bottom line of risk standing and to manage risks, as well as to supervise all risks in a timely and reliable manner and control the risk within a limited scope.

(1) Credit risk

A credit risk is the risk of financial loss of the Group caused by the counterparty's failure to meet its obligations in the contract. The Group adopts the policy to trade with the counterparty with good credit and request securities when necessary, so as to mitigate the financial loss when the counterparty is unable to fulfill its own obligation. The Group only trades with entities that are assessed to be investment grade or above. Rating information is provided by independent rating agencies, and if such information is not available, the Group will use other publicly available financial information and its own transaction records to rate key customers. The Group continuously monitors the exposure to risks and the credit ratings of many counterparties and continuously monitors the exposure to these credit risks. As of June 30, 2026, the maximum credit exposure to risks that may cause the Group's financial loss mainly comes from the

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Risk management objectives and policies (Continued)

(1) Credit risk (Continued)

risk of failure of customers or counterparties to perform on the maturity date. Specifically, it includes receivables and notes receivable. It is the Group's policy that all customers trading on credit terms must pass the credit review process. The Group evaluates clients' credit rating and sets the credit period based on their financial conditions, possibility of obtaining security from third party, credit record and other factors, such as current market situation. The Group will monitor the credit record of the customer periodically. For customers with poor credit record, measures such as written collection, shortening credit period or canceling the credit period will be adopted by the Group, to ensure the overall credit risk is within a controllable scope. The Group continuously monitors receivable balances and the board of directors believes that adequate provision has been made in the financial statements for uncollected receivables. In this regard, the board of directors believes that credit risk has been substantially reduced.

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Risk management objectives and policies (Continued)

(1) Credit risk (Continued)

The monetary funds held by the Group are mainly deposited in financial institutions such as state-owned holding banks and other large and medium-sized commercial banks. The Management believes that these commercial banks have high credit standing and asset status without material credit risks and will not cause any material losses due to the default of the other unit. The debtors of accounts receivable are a great many customers distributed in different industries and geographical areas. The Group continuously performs credit assessments on the accounts receivable of the debtors and purchases credit guarantee insurance when necessary. Because the counterparties of monetary funds and derivative financial instruments are banks with good reputations and high credit ratings, the credit risk of these financial instruments is low. As of June 30, 2026, accounts receivable and contract assets due from the Group's top five customers accounted for 10.75% (2025: 8.63%) of the Group's total receivables. Accordingly, the Group does not have a significant concentration of credit risk. The Group's credit exposure to risks includes on-balance sheet items and off-balance sheet items involving credit risk. On the balance sheet date, the carrying amount of the Group's financial assets represented its maximum credit risk exposure.

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Risk management objectives and policies (Continued)

(1) Credit risk (Continued)

1) Judgment criteria for significant increase in credit risk

On each balance sheet date, the Group judges whether the credit risk of the financial instrument has increased significantly since the initial recognition by comparing the default probability of this financial instrument determined during the initial recognition in the expected duration with its default probability determined on the balance sheet date in the expected duration. However, if the Group determines that the financial instrument has only a low credit risk on the balance sheet date, the Group could assume that the credit risk of the financial instrument has not increased significantly since the initial recognition.

The main criteria for the Group to judge a significant increase in credit risk is that one or more of the following indicators have changed significantly: the debtor's business environment, internal and external credit ratings, and material adverse changes in actual or expected operating results.

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Risk management objectives and policies (Continued)

(1) Credit risk (Continued)

2) Definition of assets with credit impairment

When one or more events that have an adverse effect on the expected future cash flows of a financial asset occur, the financial asset becomes a credit-impaired financial asset. The main criterion for the Group to judge that credit impairment has occurred is that it considers a credit impairment to have occurred if internal or external information indicates that full recovery of the contract amount may not be possible before taking into account any credit enhancements held. Credit impairment of financial assets may be caused by the joint action of multiple events, and may not necessarily be caused by separately identifiable events.

Evidence for credit-impaired financial assets includes the following observable information: the debtor has material financial difficulties; the debtor has violated the terms of the contract, such as default or overdue payment of interest or principal; due to economic or contractual considerations relating to the financial difficulties of the debtor, the Group makes concessions to the debtor which will never be made under any other circumstances; the debtor is likely to suffer bankruptcy or undergo other financial restructuring; the financial difficulties of the debtor cause the disappearance of the active market of the financial asset.

From January 1, 2026 to June 30, 2026

(Monetary unit for the Notes to the Financial Statements is RMB unless otherwise stated)

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Risk management objectives and policies (Continued)

(2) Liquidity risks

	June 30, 2026				
Item	**Carrying amount**	**Within 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
Financial assets	–	–	–	–	–
Accounts receivable	10,044,781,625.51	10,044,781,625.51	0.00	0.00	0.00
Dividends receivable	12,874,821.31	12,874,821.31	0.00	0.00	0.00
Interest receivable	20,547,672.29	20,547,672.29	0.00	0.00	0.00
Other receivables	1,564,090,966.13	1,564,090,966.13	0.00	0.00	0.00
Financial assets held under resale agreements	975,000,000.00	975,000,000.00	0.00	0.00	0.00
Long-term receivables	601,156,405.11	0.00	447,359,744.96	153,796,660.15	0.00
Non-current assets due within one year	498,857,119.81	498,857,119.81	0.00	0.00	0.00
Other current assets	4,134,456,507.29	4,134,456,507.29	0.00	0.00	0.00
Other debt investments	1,012,399,380.68	0.00	0.00	309,925,730.14	702,473,650.54
Total financial assets	18,864,164,498.13	17,250,608,712.34	447,359,744.96	463,722,390.29	702,473,650.54
Financial liabilities:	–	–	–	–	–
Accounts payable	18,671,009,916.02	18,671,009,916.02	0.00	0.00	0.00
Short-term borrowings	3,646,130,373.43	3,646,130,373.43	0.00	0.00	0.00
Customer bank deposits and interbank deposits	822,705,181.51	822,705,181.51	0.00	0.00	0.00
Other payables	641,892,838.25	641,892,838.25	0.00	0.00	0.00
Long-term borrowings	292,928,900.59	0.00	256,186,900.59	36,742,000.00	0.00
Non-current liabilities due within one year	342,907,881.34	342,907,881.34	0.00	0.00	0.00
Lease liabilities	3,104,064.65	0.00	3,104,064.65	0.00	0.00
Long-term payables	20,232,639.43	0.00	0.00	0.00	20,232,639.43
Total financial liabilities	24,440,911,795.22	24,124,646,190.55	259,290,965.24	36,742,000.00	20,232,639.43

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Risk management objectives and policies (Continued)

(3) Market risks

1) Exchange rate risk

The main business of the Group is conducted in China and settled in RMB. However, the recognized foreign currency assets and liabilities of the Group and future foreign currency transactions (the currencies of foreign currency assets and liabilities and foreign currency transactions are mainly USD, EUR, AUD, XOF, and ZAR) still have exchange rate risks. The finance department of the Group is responsible for monitoring the Company's foreign currency transactions and the scale of foreign currency assets and liabilities to reduce the exchange rate risks to the greatest extent. For this reason, the Group may avoid exchange rate risks by signing forward foreign exchange agreements or currency swap agreements.

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Risk management objectives and policies (Continued)

(3) Market risks (Continued)

2) Interest rate risk

Interest rate risks faced by the Group are mainly incurred from borrowings. Due to financial liabilities with a floating interest rate, the Group faces cash flow interest rate risk; due to financial liabilities with a fixed interest rate, the Group faces fair value interest rate risk. The Group decides the relative proportion of the fixed interest rate and floating interest rate contracts in accordance with the current market environment.

The finance department of the Group constantly monitors the interest rate of the Company. The increase in interest rates will increase the cost of new interest-bearing debts and the Group's unpaid interest expense on interest-bearing debts calculated at floating interest rates, which will have a material adverse effect on the Group's financial results. Management will duly make adjustments according to the latest market conditions. These adjustments may reduce interest rate risk via an interest rate swap.

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Risk management objectives and policies (Continued)

(3) Market risks (Continued)

3) Price risk

Price risk refers to the risk of fluctuations due to changes in market prices other than exchange rate risk and interest rate risk, mainly arising from changes in commodity prices, stock market indexes, equity instrument prices, and other risk variables.

2. Sensitivity analysis

The Group adopts a sensitivity analysis technique to analyze how the profit or loss for the period or shareholders' equity would have been affected by reasonably possible changes in the relevant risk variables. As it is unlikely that risk variables will change in an isolated manner, and the interdependence among risk variables will have a material effect on the amount ultimately influenced by the changes in a single risk variable, the following are based on the assumption that the change in each risk variable is on a stand-alone basis.

VIII. DISCLOSURE OF FAIR VALUE

1. Ending balance of assets and liabilities measured at fair value

Item	Ending fair value	
	Level 1 measurement at fair value	Level 2 measurement at fair value
I. Continuous measurement at fair value	–	–
(I) Financial assets held for trading	0.00	0.00
Financial assets at FVTPL	0.00	0.00
(II) Receivables financing	0.00	0.00
(III) Other debt investments	0.00	1,012,399,380.68
(IV) Other equity instrument investments	198,715,134.60	0.00
Total assets continuously measured at fair value	198,715,134.60	1,012,399,380.68

VIII. DISCLOSURE OF FAIR VALUE (CONTINUED)

1. Ending balance of assets and liabilities measured at fair value (Continued)

Item	Ending fair value	
	Level 3 measurement at fair value	**Total**
I. Continuous measurement at fair value	–	–
(I) Financial assets held for trading	2,000,000.00	2,000,000.00
Financial assets at FVTPL	2,000,000.00	2,000,000.00
(II) Receivables financing	742,817,834.41	742,817,834.41
(III) Other debt investments	3,972,097,536.79	4,984,496,917.47
(IV) Other equity instrument investments	328,060,616.18	526,775,750.78
Total assets continuously measured at fair value	5,044,975,987.38	6,256,090,502.66

2. Basis for determination of market prices for continuous and non-continuous Level 1 measurement items at fair value

For listed equity instrument investments, the fair value is determined based on stock market quotations.

VIII. DISCLOSURE OF FAIR VALUE (CONTINUED)

3. Valuation techniques and qualitative and quantitative information about key indicators of items subject to continuous and non-continuous level 2 fair value measurement

For other debt investments traded in the open market, the fair value is determined based on the valuation report released by the trading platform.

4. Valuation techniques and qualitative and quantitative information about significant inputs of items subject to continuous and non-continuous level 3 fair value measurement

If one or more material inputs are not based on observable market data, the financial instrument is classified as Level 3. Specific methods used to measure financial instruments include:

(1) Market list price or dealer list price of similar financial instruments.

(2) The fair value of the interest rate swap contract is calculated by estimating the discount value of future cash flow according to the observable curve of the rate of return.

(3) The fair value of forward foreign exchange contracts is calculated at the foreign exchange rate on the settlement date, and then discounted to the discounted value.

(4) Other methods, such as discounted cash flow analysis.

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Relationship of related parties

(1) Parent company

Name of parent	Registration place	Business	Registered capital	Shareholding by parent company in the Company (%)	Voting right proportion of parent company in the Company (%)
Harbin Electric Corporation	Harbin	Manufacturing of power generation equipment	RMB6,999,125,300	69.79	69.79

The ultimate controlling party of the Company is SASAC.

(2) Subsidiaries

Details of subsidiaries are provided in Note II. Scope of Consolidated Financial Statements.

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

1. Relationship of related parties (Continued)

(3) Other related parties

Name of other related party	Relationship
Harbin Haguo Industrial Development Co., Ltd.	Enterprise controlled by the same controlling shareholder and ultimate controlling party
Harbin Electric Power Equipment Company Limited	Enterprise controlled by the same controlling shareholder and ultimate controlling party
Jiamusi Electric Machine Company Limited	Enterprise controlled by the same controlling shareholder and ultimate controlling party
Harbin Electric Corporation Marine Intelligent Equipment Co., Ltd.	Enterprise controlled by the same controlling shareholder and ultimate controlling party
Harbin Sanlian Business Services Co., Ltd.	Enterprise controlled by the same controlling shareholder and ultimate controlling party
Harbin Electric Corporation Advanced Electric Machine Technology Co., Ltd.	Enterprise controlled by the same controlling shareholder and ultimate controlling party

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

1. Relationship of related parties (Continued)

(3) Other related parties (Continued)

Name of other related party	Relationship
Jiamusi Electric Machinery Company Limited	Enterprise controlled by the same controlling shareholder and ultimate controlling party
Harbin Hadian Industrial Development Co., Ltd.	Enterprise controlled by the same controlling shareholder and ultimate controlling party
Jiamusi Explosion-proof Electric Machine Institute Co., Ltd.	Enterprise controlled by the same controlling shareholder and ultimate controlling party
Harbin Electric Corporation International Trade Co., Ltd. (see Note)	Enterprise controlled by the same controlling shareholder and ultimate controlling party
Harbin Hadian Property Management Co., Ltd.	Enterprise controlled by the same controlling shareholder and ultimate controlling party
HE Harbin Enterprise Management Services Co., Ltd.	Enterprise controlled by the same controlling shareholder and ultimate controlling party

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

1. Relationship of related parties (Continued)

(3) Other related parties (Continued)

Name of other related party	Relationship
Harbin Haqi Industrial Development Co., Ltd.	Enterprise controlled by the same controlling shareholder and ultimate controlling party
Harbin Haguo Pengbo Economic and Trade Co., Ltd.	Enterprise controlled by the same controlling shareholder and ultimate controlling party
Harbin Hajue Insulation Material Co., Ltd.	Other related parties
Hunan Xinglan Wind Power Co., Ltd.	JV and associate
Hatong Gas Turbine (Qinhuangdao) Co., Ltd.	JV and associate
Harbin Nengchuang Digital Technology Co., Ltd.	JV and associate
Hunan Wuling Energy Efficiency Technology Co., Ltd.	JV and associate
Dalian Zhidian Chuangshi Electric Power Design Co., Ltd.	JV and associate
Harbin Huitong Electric Power Engineering Co., Ltd.	JV and associate
Sinopharm (Harbin) Hospital Management Co., Ltd.	JV and associate

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

1. Relationship of related parties (Continued)

(3) Other related parties (Continued)

Name of other related party	Relationship
GE-HEPE-NTEM Energy Service (Qinhuangdao) Co., Ltd.	JV and associate
Harbin Liling Motor Hydropower Equipment New Technology Development Co., Ltd.	JV and associate
Harbin Yigao Intelligent Technology Co., Ltd.	JV and associate
Harbin Youdian Tongchuang Energy Co., Ltd.	JV and associate

Note: On February 25, 2026, Harbin Electric International Trade Co., Ltd. completed the industrial and commercial registration cancellation procedures.

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions

Transactions between the Company and its related parties are conducted at agreed prices consistent with transaction prices for unrelated parties. For subsidiaries with existing control relation which have been included in the consolidated financial statement scope of the Company, the transactions between them and between the parent company and subsidiaries have been offset.

Continuing related-party transactions and related-party transactions:

On December 30, 2025, the Company signed the Financial Services Framework Agreement with HE, our controlling shareholder, effective from December 31, 2025 to December 30, 2028.

On December 30, 2025, the Company signed the Product and Service Framework Agreement with HE, our controlling shareholder, effective from January 1, 2026 to December 31, 2028.

On April 30, 2025, the Company signed the Entrusted Management Agreement with HE, our controlling shareholder, effective from March 23, 2025 to March 22, 2028.

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions (Continued)

(1) Product and service transactions

Related party transactions	Current period	Prior period
Goods procurement	**46,230,838.91**	49,705,208.54
Companies under common control	**46,230,838.91**	49,705,208.54
Selling goods	**25,742,380.90**	3,122,306.45
Holding company	**2,490,566.04**	550,000.00
Companies under common control	**23,251,814.86**	2,572,306.45
Service fee expenditure	**40,127,286.77**	37,192,199.32
Companies under common control	**40,127,286.77**	37,192,199.32

Note: The transactions in (1) above with the controlling shareholder and entities under common control were entered into under Continuing Related-Party Transactions – Products and Services Framework Agreement and constitute continuing related-party transactions under Chapter 14A of the Listing Rules.

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions (Continued)

(2) Interest payable on deposit taking

Related party transactions	Current period	Prior period
Holding company	2,981,074.47	1,802,691.08
Companies under common control	189,689.01	245,458.57
Total	3,170,763.48	2,048,149.65

(3) Interest income from entrusted loans

Related party transactions	Current period	Prior period
Companies under common control	782,625.78	2,783,502.10

Note: The transactions in (2) and (3) above with the controlling shareholder and entities under common control were entered into under Continuing Related-Party Transactions – Financial Services Framework Agreement and constitute continuing related-party transactions under Chapter 14A of the Listing Rules.

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions (Continued)

(4) Entrusted management expenses

Related party transactions	Current period	Prior period
Holding company	1,547,169.81	1,640,000.00

Note: The transactions in (4) above is entered into under the Entrusted Management Contract and constitute continuing related-party transactions exempt under Rule 14A.33 of the Listing Rules.

From January 1, 2026 to June 30, 2026

(Monetary unit for the Notes to the Financial Statements is RMB unless otherwise stated)

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

2. Related party transactions (Continued)

(5) Related-party borrowing/lending

Related party	Amount	Beginning date	Ending date	Remarks
Borrowings:	–	–	–	–
Controlling shareholder and ultimate controlling party	–	–	–	–
Harbin Electric Corporation	3,502,470,608.88	2025-1-21	2027-6-28	–
Lendings to banks and other financial institutions	–	–	–	–
Enterprise controlled by the same controlling shareholder and ultimate controlling party	–	–	–	–
Harbin Haguo Industrial Development Co., Ltd.	55,000,000.00	2025-9-10	2026-9-10	–

Note: For the current period, the Group recognized interest expense of RMB44,699,773.26 on borrowings from related parties.

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties

(1) Receivables

1) Accounts receivable

	Ending balance		Beginning balance	
Related party	Carrying amount	Provision for bad debts	Carrying amount	Provision for bad debts
Enterprise controlled by the same controlling shareholder and ultimate controlling party	-	-	-	-
Including: Harbin Electric Power Equipment Company Limited	6,218,603.77	0.00	7,430,110.89	0.00
Harbin Electric Corporation Marine Intelligent Equipment Co., Ltd.	82,150.00	0.00	13,450.00	0.00
Jiamusi Electric Machine Company Limited	2,000.00	0.00	2,000.00	0.00
Harbin Haguo Industrial Development Co., Ltd.	0.00	0.00	6,210.00	0.00
Subtotal	6,302,753.77	0.00	7,451,770.89	0.00

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(1) Receivables (Continued)

1) Accounts receivable (Continued)

	Ending balance		Beginning balance	
Related party	**Carrying amount**	**Provision for bad debts**	Carrying amount	Provision for bad debts
JVs and associates:	**-**	**-**	-	-
Including: Hunan Xinglan Wind Power Co., Ltd.	**1,889,304.82**	**625,693.86**	2,220,804.82	642,268.86
Hatong Gas Turbine (Qinhuangdao) Co., Ltd.	**1,305,263.00**	**65,263.15**	1,305,263.00	65,263.15
Harbin Nengchuang Digital Technology Co., Ltd.	**1,263,324.00**	**543,968.70**	1,259,550.00	246,091.50
Hunan Wuling Energy Efficiency Technology Co., Ltd.	**110,000.00**	**5,500.00**	110,000.00	5,500.00
Subtotal	**4,567,891.82**	**1,240,425.71**	4,895,617.82	959,123.51
Total	**10,870,645.59**	**1,240,425.71**	12,347,388.71	959,123.51

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(1) Receivables (Continued)

2) Prepayments

Related party	Ending balance Carrying amount	Ending balance Provision for bad debts	Beginning balance Carrying amount	Beginning balance Provision for bad debts
Enterprise controlled by the same controlling shareholder and ultimate controlling party	-	-	-	-
Including: Harbin Electric Power Equipment Company Limited	8,813,040.58	0.00	10,127,718.16	0.00
Harbin Sanlian Business Services Co., Ltd.	1,231,915.75	0.00	1,084,873.18	0.00
Jiamusi Electric Machinery Company Limited	428,474.46	0.00	0.00	0.00
Harbin Electric Corporation Advanced Electric Machine Technology Co., Ltd.	57,345.13	0.00	651,345.13	0.00
Harbin Haguo Industrial Development Co., Ltd.	0.00	0.00	2,128,761.07	0.00
Subtotal	10,530,775.92	0.00	13,992,697.54	0.00

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(1) Receivables (Continued)

2) Prepayments (Continued)

	Ending balance		Beginning balance	
Related party	**Carrying amount**	**Provision for bad debts**	Carrying amount	Provision for bad debts
JVs and associates:	**-**	**-**	-	-
Including: Dalian Zhidian Chuangshi Electric Power Design Co., Ltd.	**3,014,983.80**	**0.00**	3,636,081.20	0.00
Harbin Nengchuang Digital Technology Co., Ltd.	**485,096.20**	**0.00**	4,493,096.20	0.00
Subtotal	**3,500,080.00**	**0.00**	8,129,177.40	0.00
Total	**14,030,855.92**	**0.00**	22,121,874.94	0.00

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(1) Receivables (Continued)

3) Interest receivable

	Ending balance		Beginning balance	
Related party	Carrying amount	Provision for bad debts	Carrying amount	Provision for bad debts
Enterprise controlled by the same controlling shareholder and ultimate controlling party	**-**	**-**	-	-
Including: Harbin Haguo Industrial Development Co., Ltd.	**830,188.67**	**0.00**	47,562.89	0.00

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(1) Receivables (Continued)

4) Other receivables

	Ending balance		Beginning balance	
Related party	**Carrying amount**	**Provision for bad debts**	Carrying amount	Provision for bad debts
Controlling shareholder and ultimate controlling party	**–**	**–**	–	–
Including: Harbin Electric Corporation	**1,640,000.00**	**0.00**	0.00	0.00
Enterprise controlled by the same controlling shareholder and ultimate controlling party	**–**	**–**	–	–
Including: Harbin Electric Corporation Marine Intelligent Equipment Co., Ltd.	**2,449,402.44**	**0.00**	2,449,402.44	0.00
Harbin Electric Power Equipment Company Limited	**345,287.81**	**0.00**	8,469.10	0.00
Harbin Haguo Industrial Development Co., Ltd.	**246,506.42**	**0.00**	243,258.22	0.00
Harbin Hadian Industrial Development Co., Ltd.	**95,713.63**	**0.00**	94,783.39	0.00
Jiamusi Electric Machine Company Limited	**3,910.41**	**0.00**	170,589.64	0.00
Subtotal	**3,140,820.71**	**0.00**	2,966,502.79	0.00

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(1) Receivables (Continued)

4) Other receivables (Continued)

	Ending balance		Beginning balance	
Related party	Carrying amount	Provision for bad debts	Carrying amount	Provision for bad debts
JVs and associates:	–	–	–	–
Including: Harbin Nengchuang Digital Technology Co., Ltd.	693,000.00	173,250.00	693,000.00	34,650.00
Sinopharm (Harbin) Hospital Management Co., Ltd.	33,699.40	30,880.86	33,699.40	32,273.70
GE-HEPE-NTEM Energy Service (Qinhuangdao) Co., Ltd.	8,293.45	8,293.45	8,293.45	8,293.45
Harbin Huitong Electric Power Engineering Co., Ltd.	140,012.41	0.00	171,271.40	0.00
Subtotal	875,005.26	212,424.31	906,264.25	75,217.15
Total	5,655,825.97	212,424.31	3,872,767.04	75,217.15

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(1) Receivables (Continued)

5) Contract assets

	Ending balance		Beginning balance	
Related party	Carrying amount	Provision for bad debts	Carrying amount	Provision for bad debts
Enterprise controlled by the same controlling shareholder and ultimate controlling party	-	-	–	–
Including: Harbin Electric Power Equipment Company Limited	2,698,828.52	0.00	2,660,423.05	0.00
Harbin Electric Corporation Marine Intelligent Equipment Co., Ltd.	0.00	0.00	597,190.00	0.00
Subtotal	2,698,828.52	0.00	3,257,613.05	0.00
JVs and associates:	-	-	–	–
Including: Hunan Xinglan Wind Power Co., Ltd.	533,616.12	40,008.06	202,116.12	8,625.00
Total	3,232,444.64	40,008.06	3,459,729.17	8,625.00

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(1) Receivables (Continued)

6) Other current assets

	Ending balance		Beginning balance	
Related party	**Carrying amount**	**Provision for bad debts**	Carrying amount	Provision for bad debts
Enterprise controlled by the same controlling shareholder and ultimate controlling party	**-**	**-**	-	-
Including: Harbin Haguo Industrial Development Co., Ltd.	**55,000,000.00**	**0.00**	55,000,000.00	0.00

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables

1) Deposit taking

Related party	Ending carrying amount	Beginning carrying amount
Controlling shareholder and ultimate controlling party	**–**	–
Including: Harbin Electric Corporation	**729,072,656.97**	635,760,271.13
Enterprise controlled by the same controlling shareholder and ultimate controlling party	**–**	**–**
Including: Harbin Electric Corporation Marine Intelligent Equipment Co., Ltd.	**48,296,176.28**	87,848,922.19
Jiamusi Explosion-proof Electric Machine Institute Co., Ltd.	**24,940,644.12**	24,928,053.91
Jiamusi Electric Machinery Company Limited	**13,024,319.29**	16,642,719.41
Harbin Sanlian Business Services Co., Ltd.	**4,061,900.19**	2,041,303.06

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

1) Deposit taking (Continued)

Related party	Ending carrying amount	Beginning carrying amount
Harbin Hadian Property Managem	1,809,718.65	5,009,977.12
Harbin Hadian Industrial Development Co., Ltd.	1,390,353.18	3,862,207.81
Harbin Haguo Industrial Development Co., Ltd.	49,257.06	1,981,953.34
HE Harbin Enterprise Management Services Co., Ltd.	30,977.30	2,919,380.38
Harbin Haqi Industrial Development Co., Ltd.	7,218.96	94,514.94

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

1) Deposit taking (Continued)

Related party	Ending carrying amount	Beginning carrying amount
Harbin Haguo Pengbo Economic and Trade Co., Ltd.	3,915.65	18,724.09
Harbin Electric Corporation International Trade Co., Ltd.	0.00	18,243,670.76
Subtotal	93,614,480.68	163,591,427.01
Other related parties	–	–
Including: Harbin Hajue Insulation Material Co., Ltd.	18,043.86	92.33
Total	822,705,181.51	799,351,790.47

Note: For the current period, Harbin Electric Corporation Finance Company Limited, a subsidiary of the Group, recognized interest expense of RMB3,173,185.07 on deposits absorbed from related parties.

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

2) Contract liabilities

Related party	Ending carrying amount	Beginning carrying amount
Enterprise controlled by the same controlling shareholder and ultimate controlling party	**–**	–
Including: Harbin Electric Power Equipment Company Limited	**30,920,753.29**	48,051,732.16
Jiamusi Electric Machine Company Limited	**0.00**	12,000.00
Subtotal	**30,920,753.29**	48,063,732.16

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

2) Contract liabilities (Continued)

Related party	Ending carrying amount	Beginning carrying amount
JVs and associates:	–	–
Including: Hatong Gas Turbine (Qinhuangdao) Co., Ltd.	0.00	927,389.58
Hunan Wuling Energy Efficiency Technology Co., Ltd.	0.00	349,056.60
Subtotal	0.00	1,276,446.18
Total	30,920,753.29	49,340,178.34

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

3) Accounts payable

Related party	Ending carrying amount	Beginning carrying amount
Enterprise controlled by the same controlling shareholder and ultimate controlling party	**–**	–
Including: Harbin Electric Power Equipment Company Limited	**277,897,566.75**	237,898,067.77
Harbin Electric Corporation Marine Intelligent Equipment Co., Ltd.	**5,937,000.00**	1,719,000.00
Harbin Electric Corporation Advanced Electric Machine Technology Co., Ltd.	**1,739,778.00**	278,778.00
Harbin Hadian Property Management Co., Ltd.	**1,129,700.55**	999,229.55

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

3) Accounts payable (Continued)

Related party	Ending carrying amount	Beginning carrying amount
Harbin Hadian Industrial Development Co., Ltd.	443,438.19	129,876.40
Jiamusi Electric Machine Company Limited	352,000.00	250,300.00
Harbin Haguo Industrial Development Co., Ltd.	160,314.58	362,552.18
Harbin Sanlian Business Services Co., Ltd.	0.00	433,800.00
Subtotal	287,659,798.07	242,071,603.90

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

3) Accounts payable (Continued)

Related party	Ending carrying amount	Beginning carrying amount
JVs and associates:	**–**	–
Including: Hatong Gas Turbine (Qinhuangdao) Co., Ltd.	**41,466,697.50**	58,552,167.50
Dalian Zhidian Chuangshi Electric Power Design Co., Ltd.	**24,496,375.31**	30,440,680.59
Harbin Nengchuang Digital Technology Co., Ltd.	**4,802,210.90**	5,940,484.40
Harbin Liling Motor Hydropower Equipment New Technology Development Co., Ltd.	**3,980,718.85**	112,735.00

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

3) Accounts payable (Continued)

Related party	Ending carrying amount	Beginning carrying amount
Harbin Huitong Electric Power Engineering Co., Ltd.	3,730,052.84	7,697,688.36
GE-HEPE-NTEM Energy Service (Qinhuangdao) Co., Ltd.	3,280,458.93	2,731,346.63
Harbin Yigao Intelligent Technology Co., Ltd.	1,160,699.00	1,961,419.00
Harbin Youdian Tongchuang Energy Co., Ltd.	0.00	36,121.57
Subtotal	82,917,213.33	107,472,643.05
Total	370,577,011.40	349,544,246.95

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

4) Interests payable

Related party	**Ending carrying amount**	Beginning carrying amount
Controlling shareholder and ultimate controlling party	**–**	–
Including: Harbin Electric Corporation	**10,085,473.09**	8,809,320.93
Enterprise controlled by the same controlling shareholder and ultimate controlling party	**–**	–
Including: Harbin Electric Corporation Marine Intelligent Equipment Co., Ltd.	**556,845.87**	457,507.42
Jiamusi Electric Machinery Company Limited	**1,734.59**	2,480.14
Jiamusi Explosion-proof Electric Machine Institute Co., Ltd.	**623.52**	678.56
Harbin Sanlian Business Services Co., Ltd.	**210.54**	111.92

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

4) Interests payable (Continued)

Related party	Ending carrying amount	Beginning carrying amount
Harbin Hadian Industrial Development Co., Ltd.	129.64	193.46
Harbin Hadian Property Management Co., Ltd.	111.42	427.65
Harbin Haguo Industrial Development Co., Ltd.	92.92	218.76
Harbin Haqi Industrial Development Co., Ltd.	2.14	0.00
HE Harbin Enterprise Management` Services Co., Ltd.	1.23	475.18

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IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

4) Interests payable (Continued)

Related party	**Ending carrying amount**	Beginning carrying amount
Harbin Hajue Insulation Material Co., Ltd.	**0.45**	0.00
Harbin Haguo Pengbo Economic and Trade Co., Ltd.	**0.23**	1.04
Subtotal	**559,752.55**	462,094.13
Total	**10,645,225.64**	9,271,415.06

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

5) Other payables

Related party	Ending carrying amount	Beginning carrying amount
Controlling shareholder and ultimate controlling party	**–**	–
Including: Harbin Electric Corporation	**0.00**	0.00
Enterprise controlled by the same controlling shareholder and ultimate controlling party	**–**	–
Including: Harbin Haqi Industrial Development Co., Ltd.	**1,265,994.53**	0.00
Harbin Electric Corporation Advanced Electric Machine Technology Co., Ltd.	**20,000.00**	20,000.00

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

5) Other payables (Continued)

Related party	Ending carrying amount	Beginning carrying amount
Harbin Haguo Industrial Development Co., Ltd.	16,126.00	0.00
Subtotal	**1,302,120.53**	20,000.00
JVs and associates:	**–**	–
Including: Harbin Nengchuang Digital Technology Co., Ltd.	2,479,022.36	8,332,103.22
Harbin Huitong Electric Power Engineering Co., Ltd.	1,362,180.00	1,414,474.15
GE-HEPE-NTEM Energy Service (Qinhuangdao) Co., Ltd.	600,000.00	600,000.00

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

5) Other payables (Continued)

Related party	Ending carrying amount	Beginning carrying amount
Harbin Liling Motor Hydropower Equipment New Technology Development Co., Ltd.	0.00	130,000.00
Subtotal	**4,441,202.36**	10,476,577.37
Total	**5,743,322.89**	10,496,577.37

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Balance of receivables and payables by related parties (Continued)

(2) Payables (Continued)

6) Notes payable

Related party	Ending carrying amount	Beginning carrying amount
Enterprise controlled by the same controlling shareholder and ultimate controlling party	**–**	–
Including: Jiamusi Electric Machine Company Limited	**0.00**	202,418.02

7) Long-term payables

Related party	Ending carrying amount	Beginning carrying amount
Controlling shareholder and ultimate controlling party	**–**	–
Including: Harbin Electric Corporation	**3,500,000.00**	3,500,000.00

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Director, supervisor and employee benefits

(1) Details of the benefits of directors, supervisors, and senior management are as follows:

Item	Salaries, allowances, and bonuses	Social insurance, housing fund and retirement pension	Share-based payment	Total
Current year amount	–	–	–	–
Executive Directors	–	–	–	–
Mr. Huang Wei	0	0	0	0
Mr. Liu Qingyong	312,492.00	89,167.72	0.00	401,659.72
Mr. Du Xingkai	281,250.00	89,167.72	0.00	370,417.72
Supervisors	–	–	–	–
Mr. Liu Weimin (His status as a supervisor was automatically terminated on May 22, 2026 when the Company abolished the board of supervisors and the supervisors.)	115,050.00	69,990.23	0.00	185,040.23
Mr. Zhu Pengtao (His status as a supervisor was automatically terminated on May 22, 2026 when the Company abolished the board of supervisors and the supervisors.)	115,050.00	74,306.43	0.00	189,356.43

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Director, supervisor and employee benefits (Continued)

(1) Details of the benefits of directors, supervisors, and senior management are as follows: (Continued)

Item	Salaries, allowances, and bonuses	Social insurance, housing fund and retirement pension	Share-based payment	Total
Mr. Zhang Jun (His status as a supervisor was automatically terminated on May 22, 2025 when the Company abolished the board of supervisors and the supervisors.)	88,920.00	72,496.75	0.00	161,416.75
Mr. Yang Yulong (His status as a supervisor was automatically terminated on May 22, 2026 when the Company abolished the board of supervisors and the supervisors.)	99,217.00	65,757.70	0.00	164,974.70

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Director, supervisor and employee benefits (Continued)

(1) Details of the benefits of directors, supervisors, and senior management are as follows: (Continued)

Item	Salaries, allowances, and bonuses	Social insurance, housing fund and retirement pension	Share-based payment	Total
Mr. Zhao Xin (His status as a supervisor was automatically terminated on May 22, 2026 when the Company abolished the board of supervisors and the supervisors.)	87,364.00	57,438.45	0.00	144,802.45
Independent Non-executive Directors	–	–	–	–
Mr. He Yu	30,000.00	0.00	0.00	30,000.00
Ms. Niu Xiangchun	30,000.00	0.00	0.00	30,000.00
Mr. Gao Yibin	30,000.00	0.00	0.00	30,000.00
Mr. Li Xie-hua	0.00	0.00	0.00	0.00
Senior Management	–	–	–	–
Mr. Liu Yi	303,300.00	89,167.72	0.00	392,467.72
Mr. Yang Xiao	304,750.00	86,693.64	0.00	391,443.64
Mr. Zhang Lianbin	278,112.00	89,167.72	0.00	367,279.72
Mr. Chen Hui	278,112.00	110,761.98	0.00	388,873.98
Mr. Qiu Xiliang	986,506.00	68,519.91	0.00	1,055,025.91

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Director, supervisor and employee benefits (Continued)

(1) Details of the benefits of directors, supervisors, and senior management are as follows: (Continued)

Item	Salaries, allowances, and bonuses	Social insurance, housing fund and retirement pension	Share-based payment	Total
Mr. Wang Gui	1,297,547.00	86,996.10	0.00	1,384,543.10
Mr. Chen Dongshi	778,200.00	88,226.68	0.00	866,426.68
Mr. Ai Li-song	702,855.00	82,266.52	0.00	785,121.52
Total	6,118,725.00	1,220,125.27	0.00	7,338,850.27
Previous year amount	–	–	–	–
Executive Directors	–	–	–	–
Mr. Huang Wei	244,992.00	88,873.38	0.00	333,865.38
Mr. Du Xingkai (appointed in April 2025)	110,250.00	44,674.03	0.00	154,924.03
Mr. Cao Zhi-an (Resigned on July 2025)	0.00	0.00	0.00	0.00
Mr. Shen Tong (Resigned on January 2025)	0.00	0.00	0.00	0.00
Supervisors	–	–	–	–
Mr. Liu Weimin	598,500.00	79,769.78	0.00	678,269.78
Mr. Zhu Pengtao	744,962.00	80,340.98	0.00	825,302.98
Mr. Zhang Jun	1,805,406.00	68,288.25	0.00	1,873,694.25

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Director, supervisor and employee benefits (Continued)

(1) Details of the benefits of directors, supervisors, and senior management are as follows: (Continued)

Item	Salaries, allowances, and bonuses	Social insurance, housing fund and retirement pension	Share-based payment	Total
Mr. Yang Yulong	1,292,232.00	67,126.96	0.00	1,359,358.96
Mr. Zhao Xin	1,687,392.49	75,355.50	0.00	1,762,747.99
Non-executive Directors	–	–	–	–
Mr. He Yu	30,000.00	0.00	0.00	30,000.00
Mr. Pan Qi-long	0.00	0.00	0.00	0.00
Ms. Niu Xiangchun	30,000.00	0.00	0.00	30,000.00
Mr. Gao Yibin	30,000.00	0.00	0.00	30,000.00
Senior Management	–	–	–	–
Mr. Liu Qing-yong	0.00	0.00	0.00	0.00
Mr. Liu Yi	239,590.00	78,670.10	0.00	318,260.10
Mr. Yang Xiao (appointed in May 2025)	83,147.00	27,376.74	0.00	110,523.74
Mr. Qiu Xiliang	1,691,524.00	67,126.96	150,143.12	1,908,794.08
Mr. Wang Gui	2,034,057.74	75,355.50	0.00	2,109,413.24
Mr. Chen Dongshi	680,460.00	80,075.06	189,927.20	950,462.26
Mr. Ai Lisong	555,310.00	80,082.82	189,927.20	825,320.02
Total	11,857,823.23	913,116.06	529,997.52	13,300,936.81

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Director, supervisor and employee benefits (Continued)

Scope:

Item	Person(s) in the current year	Person(s) in the previous year
Within HKD1,000,000	17	14
HKD1,000,001 to HKD1,500,000	2	1
HKD1,500,001 to HKD2,000,000	1	1
HKD2,000,001 to HKD2,500,000	0	4

(2) Five persons with the highest compensation

Item	Current year amount	Previous year amount
Salary and allowance	5,959,556.97	10,082,977.25
Social insurance, housing fund and relevant retirement pension costs	365,658.99	321,431.63
Share-based payment	0.00	539,287.46
Total	6,325,215.96	10,943,696.34

IX. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Director, supervisor and employee benefits (Continued)

(3) During the track record period, no director has waived or agreed to waive any compensation. During the track record period, the Company has not paid any compensation to any director, supervisor, or five individuals with the top five compensation as a reward for attracting them to join the Company or reward for them when joining in, or as a separation allowance.

The salaries, allowances, and bonuses of the above directors, supervisors, and employees are continuing related-party transactions exempt under Rule 14A.33 of the Listing Rules.

X. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

None.

2. Contingencies

None.

From January 1, 2026 to June 30, 2026
(Monetary unit for the Notes to the Financial Statements is RMB unless otherwise stated)

XI. EVENTS AFTER THE BALANCE SHEET DATE

As of the date of approval of the financial report, the Group has no events after the balance sheet date that should be disclosed but have not been disclosed.

XII. SUPPLEMENTARY INFORMATION

1. List of non-recurring loss/profit of current period

Item	Current period	Notes
Profits and losses from the disposal of non-current assets, including the write-off portion of recognized asset impairment provision	**49,306.90**	–
Government subsidies included in the current profits and losses (excluding those which are closely related to the Company's normal business operations, in line with national policies and regulations, and granted in accordance with defined criteria, and have a continuous influence on the Company's profits and losses)	**26,791,482.03**	–

XII. SUPPLEMENTARY INFORMATION (CONTINUED)

1. List of non-recurring loss/profit of current period (Continued)

Item	Current period	Notes
Profit or loss from changes in the fair value of financial assets and financial liabilities held by the Company as a non-financial company, as well as profit or loss from the disposal of the financial assets and financial liabilities, except in effective hedging activities related to the normal operating activities of the Company	0.00	–
Funds occupation fee received from non-financial enterprises that is recognized in profit or loss for the current period	0.00	–
Profit or loss on the assets by entrusting others to invest or manage	0.00	–
Profit or loss acquired from externally entrusted loans	782,625.78	–
Asset losses caused by force majeure (e.g., natural disasters)	0.00	–

From January 1, 2026 to June 30, 2026
(Monetary unit for the Notes to the Financial Statements is RMB unless otherwise stated)

XII. SUPPLEMENTARY INFORMATION (CONTINUED)

1. List of non-recurring loss/profit of current period (Continued)

Item	Current period	Notes
Reversal of impairment provision on receivables that were individually tested for impairment	16,471,242.26	–
Income arising from the fair value of net identifiable assets of the investee the enterprise should enjoy when the cost of investment it acquired from the subsidiaries, associates, and joint ventures was less than the investment it obtained	0.00	–
Net profits or losses of subsidiaries from the beginning of the period to the combination date arising from business combination under common control	0.00	–
Gain or loss on exchange of non-monetary assets	0.00	–
Gains or losses on debt restructuring	686,842.40	–

From January 1, 2026 to June 30, 2026

(Monetary unit for the Notes to the Financial Statements is RMB unless otherwise stated)

XII. SUPPLEMENTARY INFORMATION (CONTINUED)

1. List of non-recurring loss/profit of current period (Continued)

Item	Current period	Notes
One-time expenses incurred by the enterprise due to the cessation of relevant business activities, such as expenses for employee settlement, etc.	0.00	–
One-off influence on the current profit or loss due to adjustment of taxation and accounting laws and regulations	0.00	–
One-time recognized share-based payment expenses due to cancellation or modification of equity incentive plan	0.00	–
Gains or losses arising from changes in the fair value of employee compensation payable for cash-settled share-based payments after the vesting date	3,603,025.00	–
Gains or losses arising from changes in the fair value of investment properties by using the fair value model for subsequent measurement	0.00	–
Gains arising from transactions where the transaction price is clearly unfair.	0.00	–

From January 1, 2026 to June 30, 2026
(Monetary unit for the Notes to the Financial Statements is RMB unless otherwise stated)

XII. SUPPLEMENTARY INFORMATION (CONTINUED)

1. List of non-recurring loss/profit of current period (Continued)

Item	Current period	Notes
Gains or losses arising from contingencies unrelated to the Company's normal operating business	0.00	–
Custodian fee income earned from trustee operations	0.00	–
Non-operating income and expenses other than those mentioned above	46,630,568.45	–
Other items of profit or loss that meet the definition of non-recurring profit or loss	0.00	–
Subtotal	95,015,092.82	–
Less: Income tax effect	13,022,021.99	–
Less: Effect on non-controlling interests (after-tax)	1,912,837.03	–
Net non-recurring profit and loss attributable to the parent company	76,521,788.98	–
Net profit attributable to the parent company	1,717,898,111.62	–
Total net profit attributable to the parent company after deducting non-recurring profits and losses	1,641,376,322.64	–

From January 1, 2026 to June 30, 2026

(Monetary unit for the Notes to the Financial Statements is RMB unless otherwise stated)

XII. SUPPLEMENTARY INFORMATION (CONTINUED)

2. Earnings per share

Item	Current period	Prior period
Net profit attributable to common shareholders of the parent company	**1,717,898,111.62**	1,050,891,055.16
Weighted-average number of ordinary shares issued during the period	**2,236,276,000.00**	2,236,276,000.00
Earnings per share	**0.77**	0.47
Diluted earnings per share	**0.77**	0.47

Harbin Electric Company Limited

August 26, 2026

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

1399 Chuangxinyi Road
Songbei District
Harbin
Heilongjiang Province
People's Republic of China
Taxpayer's Identification Number:
91230100127575573H

OFFICE ADDRESS OF THE COMPANY

1399 Chuangxinyi Road
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Heilongjiang Province
People's Republic of China
Postcode: 150028
Tel: 86-451-82135727 or 58590070
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LEGAL REPRESENTATIVE

Mr. Huang Wei

AUTHORISED REPRESENTATIVES

Mr. Huang Wei
Mr. Ai Li-song

COMPANY SECRETARY

Mr. Ai Li-song

JOINT COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael

AUDITORS

ShineWing
Certified Public Accountants LLP

LEGAL ADVISORS

as to PRC Law
Haiwen Partners

LISTING INFORMATION

H Shares
The Stock Exchange of Hong Kong Limited
Stock Code: 1133

SHARE REGISTER AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited