

## **Hangzhou Steam Turbine Co., Ltd. Board of Directors Reports in 2018**

*The members of the Board and the Company acknowledge being responsible for the truthfulness, accuracy, and completeness of the announcement. Not any false record, misleading statement or significant omission carried in this announcement.*

### **I. Board of Directors Work Conducting during the Report Period**

#### **1. Focus on the implementation of the strategic plan and improve the quality of business operations**

Within the report period, facing the intricate situations at home and abroad, the Company has steadily promoted the implementation of the "13th Five-Year" strategic plan, adhered to the economic policies of "innovation persisting, coordinated advance, culture leading and management strengthening" to insist on the technical innovation of products and accelerate the transformation and upgrading of the Company, orderly carried out the relocation to ensure the production schedule of products, seized the high-end market segments to enhance the Company's industrial position, started the enterprise culture construction to increase the cohesion and converge the talents, and constantly improved the enterprise management to effectively prevent the enterprise risks. After the joint efforts of all employees, the Company has realized turnover of RMB 4642.8076 million, an increase of 34.69%; Total profit of RMB470.0691 million , an increase of 254.35%, net profit attributable to owners of the parent company of RMB345.8243 million, an increase of 420.99% the annual operation target in 2018 has been successfully completed.

Within the report period, The Company organized a mid-term implementation evaluation of the Company's "13th-Five" development strategy plan and adjusted some of its business objectives. After a comprehensive and objective assessment, the Company basically achieved its predetermined strategic objectives in the "13th-Five-Year Plan", organized and adjusted major strategic initiatives such as business transformation and lean engineering project in the process of relocation, and effectively promoted a good development basis for the medium and long-term sustainable development of the Company.

#### **II. Perform the duties of the board of directors according to the law and improve the quality of decision-making**

### **(1) About Board Meetings**

In 2018, a total of 10 Board meetings, 4 supervisory board meetings, 2 shareholders' meetings, 5 board special committees and annual report work meetings were organized.

In strict accordance with the Articles of Association of the Company and relevant laws and regulations, the Company examined and made decisions on major business matters, organized and convened the meetings of board of directors, meetings of the board of supervisors, and the general shareholders' meetings, which reviewed the Company's periodic reports, report on self-evaluation of internal control, appointment of an accounting firm, external guarantees, related transactions, bank credit loans, entrusted wealth management, impairment and write-off of assets, important business governance activities such as changes in management and organizational structure, etc., and performed examination and approval procedures on major matters, exercised supervision over the operation of the Company, and ensured the Company's compliance in operations.

In the year, the Company's major decision-making matter mainly was the consideration and approval of the Company's signing of the relocation compensation agreement with Hangzhou Xiacheng City Construction Investment Development Group Co., Ltd., and the continuous fulfillment of its information disclosure obligations in accordance with the development of the matter.

### **(2) Information about the Independent Directors' Duty Performance**

In accordance with the requirements of relevant laws, regulations, and departmental regulations such as "The Company Law", "Guidelines for the Operation of Listed Companies on the Main Board of the Shenzhen Stock Exchange," "Articles of Association of the Company" and the "Working System for Independent Directors", the independent directors of the company strictly fulfilled their obligations, exercised their powers, actively attended the relevant meetings, carefully reviewed the various proposals of the Board of Directors, diligently performed the duties, and issued relevant opinions according to requirements on matters requiring the independent directors to issue prior approval opinions or independent opinions, thus fully exerted the role of independent directors.

### **(3) Information about the Duty Performance of Special Committees**

In 2018, each of the special committees of the board of directors strictly performed their duties according to the Guidelines for the Governance of Listed Companies and the work systems of the special committees, full exerted their professional advantages and functions and provided

the good support for the board of directors.

The audit committee carefully performed its supervision and inspection duties, effectively guided and supervised the company's financial reports, internal control, and the work of the internal and external auditing agencies; the nomination committee performed its duties with due diligence and played an important role in the selection of the company's board of directors and senior management; the Remuneration and Appraisal Committee reviewed the annual remuneration standards of the company's directors, supervisors and senior management personnel and supervised the implementation of the company's remuneration system.

### **III. Continuously improve the corporate governance system and ensure the company's compliance in operation**

1. Revised the "Entrusted Wealth Management System". According to the Company's cash flow situation and the Company's management status of the entrusted wealth management business, the Company adjusted the authorization quota to the board of directors and the shareholders' meeting for entrusted wealth management, for further satisfying the need of the fund use efficiency, and meanwhile taking into account the need for capital management risk control to ensure that the income and risk are controllable;

2. Amended the Measures for the Administration of Shareholdings and Shareholding Changes of Directors, Supervisors and Senior Management, strengthened the management on the shares of the company held by the Company's directors, supervisors and senior management personnel and their shareholding changes in such shares, regulated the behavior of buying and selling of the Company stocks and derivatives, and further clarified the operational procedures and non-compliance responsibilities; revised the "Notice of the Company on Regulating the Work of the Board of Directors (Supervisory Board) and Shareholders' Meeting of Holding Subsidiaries", further standardizing the operating procedures of the holding subsidiaries and strengthening the process control, ensuring that the Company's delegated directors to correctly exercise the voting rights and ensuring the Company to understand the situation of major events in the holding subsidiaries.

3. According to the request of the "Notice of the State-owned Assets Supervision and Administration Commission of Hangzhou Municipality on Compressing the Management Layers of the Municipal Enterprises and the Exiting of the "Low and Small Weak Enterprises" forwarded by Hangzhou Steam Turbine Power Group, the Company sorted out the shareholdings of the

holding subsidiaries, carried out the management layers compression to promote "The Phoenix Plan."

4. Organized the company's directors, supervisors and senior management personnel to participate in training on new regulations concerning the regulatory policies, information disclosure, etc., and further improved the work norm, performance capability, strategic decision-making ability and governance level of directors, supervisors, and senior managers

#### **IV. Faithfully fulfill the obligations of information disclosure and continuously improve the quality of information disclosure**

In 2018, the Company disclosed a total of 73 announcements. The Company's information disclosure work was well assessed and was not punished by the regulatory authorities. The board of directors of the company strictly abided by the relevant regulations on information disclosure and faithfully fulfilled the information disclosure obligations in accordance with the relevant format guidelines for information disclosure of the China Securities Regulatory Commission and the Shenzhen Stock Exchange and other relevant information disclosure requirements, ensuring that investors are kept informed of the company's major issues in a timely manner, thus to maximally protect the investors' interests. In addition, the Company also strengthened the proactive information disclosure, and the Company proactively announced good news to the market and investors to enhance investors' confidence in the Company.

Meanwhile, the Board of Directors attached great importance to insider information management, formulated and effectively implemented the inside information management system, and clarified the accountability of insider information insiders and insider information disclosure. The relevant staff strictly abided by the system requirements in the actual work process, controlled the scope of inside information transmission, and strengthened the confidentiality of inside information.

#### **V. Enhance Investor Relations Management**

The company establishes an information communication mechanism with investors, fully protects investors' right to know and inquire, and forms a long-term, stable and harmonious benign interaction between the Company and investors. The company provides a convenient communication platform for investors. In addition to receiving investors on the spot, the Company communicates with investors through telephone, mail and so on, and responds to 142 questions from investors on the "Interactive and Easy" platform of the Shenzhen Stock Exchange. Plus, we

continue to carry out public opinion monitoring, understand the reports and evaluations of investors and capital markets and the media, and actively feed back to the investors' concerns.

The 2018 was the 20th anniversary of the Company's listing, and the Company held the first 20th anniversary of listing event day of investor reception. The Company's executives and the institutions, individual investors and domestic and foreign media participated in this reception day. The first commemorative edition of annual report on the 20th anniversary of the Company's listing was prepared, which will be sent to the investors and related departments, for constantly enhancing the image of the Company.

In order to further expand communication channels with investors, the Company regularly transmits the Company's production and operation information to investors through the Company's official public account "Hangzhou Steam turbine Voice ", facilitates the investor's dynamic understanding of the Company; and regularly conducts investor relations maintenance with major investors, and invites investors to come to the Company for field research.

## **II Work Plan for 2019**

2019 is the 70th anniversary of the founding of New China, and it's a decisive year for the Company's relocation and construction, as well as is a key year for the Company to implement transformation and upgrading. The company will adopt the "cohesive strategy, comprehensive relocation, deepening management, and thickly cultivated culture" as its annual work policy, adhere to the strategy as the key point, stick to cultural leadership and innovation driven, continuously perfect the management and persist in transformation and upgrading to promote development.

### **1. Cohesion strategy**

The company will adhere to the "13th Five-Year Plan" as the development guiding principle, explore ways to change corporate systems and mechanisms, and accelerate the implementation of transformation and upgrading to promote development.

Also, it will actively explore the complete set of business, extend the industrial layout, advance to the high-end of the industrial chain, and gradually realize the transformation from production-oriented manufacturing to service-oriented manufacturing, and become a service-oriented manufacturing enterprise integrating product manufacturing, engineering complete sets and overall solutions.

### **2. Comprehensive Relocation**

The company will follow the planning and coordination of the relocation and construction work directed by the higher-level government departments, organize the construction and relocation work in an orderly manner, and ensure that the relocation and construction will be completed smoothly and orderly. It will coordinate the relationship between relocation and

production capacity to ensure the successful completion of contracted product tasks, do a good job in the selection and procurement of new equipment, further improve the installation and commissioning plan for newly-added and relocated equipment, obtain all the resources needed for installation and relocation, thus to ensure that the steam turbine heavy machine company will be put into operation as soon as possible.

Plus, it will strengthen the connection between production and marketing, improve the supply chain support capability, balance the internal and external supply capacity, and strengthen the supply chain process management and quality control.

Further adjust and improve the integration of production line organization and function, gradually build a manufacturing and production organization framework compatible with the new production organization of the new plant after relocation, optimize the operation process, strengthen the integration of the manufacturing process, and improve the agility and efficiency of manufacturing and improve the rapid response ability.

### **3. Innovation Driven**

According to the product technology development strategy, the Company will focus on the research & development and service of Dalian Hengli 1.5 million tons/year ethylene unit; promote the landing and development of the first subcritical unit; promote the one-button start-stop, digital delivery, and improve the assembly technology including the engineering materials, packaging and transportation, installation and use of software and the specifications; vigorously carry out remote operation and maintenance service system and roll out the industrial interconnection service application projects; carry out the product quality big data work, improve the inspection technical specifications; and actively explore the technical research for gas turbine parts.

### **4. Consolidating the Market**

The Company will increase the research efforts focusing on key areas, key customers and key projects, strengthen the integration work of marketing and branding, continuously improve the project execution level and innovate the marketing model. It will continuously expand the product application areas and seek more development opportunities in energy-saving applications and new energy fields.

### **5. Deepening the Management**

Deeply promote the three management projects of “lean production”, “management integration” and “key management tasks of the year”, and further strengthen the precision management ability on marketing, technology, technical process, manufacturing, functional management and other processes.

Continue to promote the construction of ERP, PLM, MES, industrial Internet of Things and other informatization projects, explore 5G applications, deepen MES applications and the second-phase development, actively carry out the ERP solution planning, promote the Company's hybrid cloud planning program and advance the supplying code program of purchased parts, guiding the Company's transition from traditional manufacturing to smart manufacturing.

Drive the improvement of the Company's accounts receivable management model, focus on the recovery of long-aged receivables, and pay attention to the control and professional role of financial and legal solution in overdue accounts receivable.

## **6. Thickly-cultivated Culture**

Adhere to the innovation driven, promote the cultural construction and brand creation in the new era for Hangzhou Steam Turbine, systematically strengthen the construction and management of the talent team, further improve the assessment and incentive system, and achieve business empowerment, brand enhancement, and talent advancement.

Enhance the depth and thickness of the culture, and by centering on the relocation and construction of the new plant and the strategic transformation of the “13th Five-Year Plan”, continue to promote the corporate culture construction project, deepen and refine the core cultural values of the enterprise, establish a scientific corporate culture management system with continuous reviewing and continuous improvement , promote the Company's brand building, establish a unified, standardized and unique corporate image, cultivate the employees' sense of identity, pride and belonging, create a trustworthy brand image and promote the business development.

In 2019, the company's board of directors will unite and lead all staff to focus on the company's development strategy, accelerate the development, give full play to the company's competitive advantage, and enhance the company's overall competitiveness. The board of directors will supervise and push the management team to effectively implement the company's strategic plan and the resolutions of shareholders' meetings and meetings of board of directors, and give full play to the core role of the board of directors in the corporate governance.

The board of directors of the company will strictly follow the specific arrangements and implementation of the disclosed profit distribution policy, especially the cash dividend policy, in accordance with the relevant provisions of the China Securities Regulatory Commission's Circular on Relevant Issues Concerning the Further Implementation of Cash Dividends for Listed Companies and the Articles of Association of the Company, and adhere to the implementation of a sustained and stable cash dividend system and attach importance to the reasonable return to investors while taking into account the sustainable development of the company. At the same time, the company will protect the right to know of small and medium investors in accordance with law, and truly, accurately disclose the information that has a significant impact on investment decisions in a timely manner. And the company will increase the initiative, pertinence, and effectiveness of information disclosure and actively accept the supervision from the society and the investors.

The board of directors of the company will actively pay attention to the newly revised laws, regulations, rules and regulations of the capital market, and timely communicate the supervision spirit and concepts of the supervisory departments to the relevant personnel through various means to effectively improve the performance of duties of directors, supervisors, and senior management personnel, and improve the organizational structure and governance structure with clear rights and responsibilities, thus to ensure that the company operates in a standardized and efficient manner. At the same time, the company will, combined with the actual situation of production and operation of the company, continue to improve its internal control system, improve various regulations and management systems and improve the management efficiency. In the company's operation and management, the supervisory role of the company's board of supervisors, independent directors, and internal auditing departments will be fully utilized, thus to provide a strong guarantee for the sustainable development of the company.

In the new year, the company's board of directors will continue to perform its duties in good faith and diligence, actively and solidly conduct its work, and strive to make new and greater contributions to ensure the rights and interests of all shareholders and investors!

This announcement is hereby made.

The Board of Directors of Hangzhou Steam Turbine Co., Ltd.

March 29, 2019