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哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1133)

**FURTHER ANNOUNCEMENT
DISCLOSEABLE TRANSACTION
ENTERING INTO THE VALVE COMPANY
CAPITAL INJECTION AGREEMENT**

Reference is made to the announcement of Harbin Electric Company Limited (the “**Company**”) dated 21 December 2020, in relation to the Valve Company Capital Injection Agreement entered into by the Company (the “**Announcement**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

COMPLIANCE WITH THE LISTING RULES

As disclosed in the Announcement, the price of the Capital Injection is determined based on the price of the public listing on the CBEX. Prior to the public listing on the CBEX, the Valve Company appointed Beijing Zhongtianhe to value the total equity value of the Valve Company’s Shareholders. The evaluation results of the income approach was adopted as the final valuation conclusion and constitutes a profit forecast under Rule 14.61 of the Listing Rules. Accordingly, the Company discloses the following valuation details in compliance with Rule 14.62 of the Listing Rules.

PROFIT FORECAST IN RELATION TO THE EVALUATION

Pursuant to the valuation report prepared by Beijing Zhongtianhe, details of the principal assumptions, including commercial assumptions upon which the profit forecast for the total equity value of the Valve Company’s Shareholders is based, are set out as follows:

1. General assumptions of the Evaluation

- (i) Transaction Assumption: it is assumed that all assets to be valued are in the process of transaction, and the valuation is made based on a simulated market according to the transaction conditions of the assets to be valued.

- (ii) **Open Market Assumption:** it is assumed that the assets to be valued are under transaction in the open market to realize its market value. The market value of the assets are restricted by market mechanism and determined by the market conditions, rather than by individual transactions. Open market refers to fully developed and sound market conditions, and a competitive market with voluntary buyers and sellers. In such market, buyers and sellers are in equal position and have opportunities and time to obtain sufficient market information. Transactions of both parties are conducted on voluntary, rational, non-mandatory or unrestricted conditions.
- (iii) **Enterprise Going Concern Assumption:** it is the valuation assumption made based on the overall assets of the enterprise as the valuation object. In other words, the enterprise, as an operating entity, will operate continuously in accordance with its operation target under its external environment. The person(s) operating the enterprise is/are accountable for and capable of assuming responsibilities; the enterprise conducts lawful operations and is able to acquire appropriate profit to maintain its ability to continue as a going concern.

2. Special assumptions of the Evaluation

- (i) It is assumed that there are no material changes in the relevant existing national laws, regulations and policies, national macroeconomic conditions as well as in the local political, economic and social environment of such places where the parties to the transaction are operating.
- (ii) It is assumed that the person(s) operating the enterprise is/are accountable, and the management of the enterprise is capable of performing their duties.
- (iii) Unless otherwise stated, it is assumed the enterprise has fully complied with all relevant laws and regulations.
- (iv) It is assumed the accounting policies to be adopted by the enterprise in the future will basically be consistent in material respects with the accounting policies adopted when the valuation report is prepared.
- (v) It is assumed that, based on the existing management practice and management standard of the enterprise, the business scope and mode will remain consistent with the current directions.
- (vi) There are no substantial changes in relation to the interest rates, exchange rates, tax bases, tax rates and policy-based levies.
- (vii) There are no material adverse effects on the enterprise caused by other force majeure factors beyond the control of human and unforeseeable factors.

- (viii) The core management personnel, technical personnel and sales personnel of the enterprise are stable, and the Company is able to maintain its current management standard, research and development standard, sales channels as well as progressively expanding market share in its future operations.
- (ix) The acquisition and utilization methods of the production and operating premises of the enterprise are consistent with the Valuation Benchmark Date without changes.
- (x) The valuation is only based on the current operating capacity as at the Valuation Benchmark Date, and does not take into account the expansion of the operating capacity that may be caused by the management, the operating strategies and additional investments in the future.
- (xi) Each asset evaluated in the Evaluation is based on the actual quantity as at the Valuation Benchmark Date, and the current market price of the relevant assets is based on the domestic effective price as at the Valuation Benchmark Date.
- (xii) The Evaluation assumes that the ownership certificates, financial accounting information and other information related to the Evaluation provided by the principal and the appraised unit are true, complete and legitimate; the scope of the valuation are only confirmed in the valuation declaration form provided by the principal and the appraised unit; contingent assets and contingent liabilities that may exist outside the list provided by the principal and the appraised unit are not taken into account.
- (xiii) The Evaluation does not consider the impact of mortgages, guarantees and other contingencies on the valuation conclusions.
- (xiv) It is assumed that the cash inflow and outflow of the appraised unit after the Valuation Benchmark Date are the average cash inflow and outflow.
- (xv) It is assumed that the relevant qualifications of the Valve Company can be renewed normally after expiration.
- (xvi) It is assumed that the relevant leasing policy in the Leased Assets Agreement signed with the Company remains unchanged.

Da Hua Certified Public Accountants (Special General Partnership), the auditor of the Company, has reviewed the arithmetic accuracy of the calculations of the relevant income approach forecast of the valuation (which does not involve the adoption of accounting policies and the reasonableness of the assumptions).

The Board confirmed that the profit forecast of the Valve Company in the valuation report was made after due and careful enquiry by the Board, and is fair and reasonable.

The letter issued by Da Hua Certified Public Accountants (Special General Partnership) and the letter issued by the Board are listed in Appendix I and Appendix II to this announcement respectively.

3. Information on the Experts

The qualifications of the experts who have provided conclusions or opinions in this announcement are as follows:

Name	Qualification	Date of conclusion or opinion
Da Hua Certified Public Accountants (Special General Partnership)	Certified Public Accountants	6 January 2021
Beijing Zhongtianhe Assets Appraisal Co., Ltd.	Certified Assets Valuer	17 March 2020

As at the date of this announcement, to the best knowledge of the Directors, none of the experts had any beneficial interests in the share capital of the Company and its subsidiaries, nor did they have any right (whether legally enforceable or not) to subscribe for or nominate others to subscribe for any shares, convertible securities, warrants, options or derivative securities with voting rights of the Company and its subsidiaries.

Each of the experts has provided and has not withdrawn its written consent to the publication of this announcement with the inclusion herein of its letter and/or references to its name in the context.

SUPPLEMENT TO THE RELEVANT CONTENTS OF THE ANNOUNCEMENT

The Company would like to provide further information in relation to the Investors and the Employees' Shareholding Platform as follows:

1. The ultimate beneficial owners of Heilongjiang Muling Power Station Valve Co., Ltd. are 29 natural person shareholders including Pan Yushen, of which Pan Yushen is the single largest shareholder, holding 30.16% of its equity interest.

2. The ultimate beneficial owners of Shandong Hongxin New Energy Technology Service Center (Limited Partnership) are 12 natural person partners including Ye Xinyong, who is the single largest partner. The equity interest (capital contribution) of each partner is as follows:

Name of partner	Proportion of contribution	Name of partner	Proportion of contribution
Ye Xinyong	18.97%	Zhang Jianshe	5.17%
Chen Shuiyou	17.24%	Wu Meiyue	2.59%
Hong Tianming	17.24%	Chen Zhenchuan	2.59%
Hong Jinchuan	10.35%	Hong Dexin	1.72%
Zhang Fengguo	12.07%	Wang Tingyi	1.72%
Hong Huatang	8.62%	Li Dandan	1.72%

3. Harbin Ruitailong Valve Sales Center (Limited Partnership) (“**Ruitailong**”), Harbin Runtailong Valve Technology R&D Center (Limited Partnership) (“**Runtailong**”) and Harbin Yutailong Valve Intelligent Manufacturing Center (Limited Partnership) (“**Yutailong**”) are all limited partnership enterprises established to realize the shareholding of employees of the Valve Company. The executive partners of the three limited partnerships are Jia Lijun, Wan Shengjun and Liu Haoyang respectively, who are the employees of the Valve Company and are independent third parties other than the Company and its connected persons. The ultimate beneficial owners of the three limited partnerships are 21 natural person partners including Jia Lijun, 26 natural person partners including Wan Shengjun and 25 natural person partners including Liu Haoyang respectively.

The equity interest (capital contribution) of each partner in Ruitailong is as follows:

Name of partner	Proportion of contribution	Name of partner	Proportion of contribution
Xie Jingdong	11.631%	Fu Qinglin	3.668%
Xu Fuwu	9.337%	Wang Qingyang	3.668%
Jia Lijun	9.003%	Tian Haiyu	2.334%
Luo Jing	7.336%	Muyang	2.334%
Wang Jiangang	7.336%	Chu Zhixin	2.334%
Ye Xizhong	5.669%	Meng Tengjiao	2.334%
Zhang Lihua	5.669%	Cui Ning	2.334%
Li Zhongxue	5.669%	Li Zhichao	2.334%
Bi Yingjie	5.669%	An Baihua	2.000%
Li Zheng	3.668%	Zhou Yong	2.000%
Wang Aibo	3.668%		

The equity interest (capital contribution) of each partner in Runtailong is as follows:

Name of partner	Proportion of contribution	Name of partner	Proportion of contribution
Wan Shengjun	8.904%	Zhang Bo	2.397%
Song Yixin	8.904%	Hu Haiou	2.397%
Gao Qiang	8.904%	Li Dameng	2.397%
Wang Zhongcheng	7.534%	Xu Jiao	2.397%
Li Hongmei	7.534%	Chen Qingwen	2.397%
Li Ling	5.822%	Xu Liubin	2.397%
Hu Songbai	3.767%	Zheng Hongli	2.055%
Zhang Shangyi	3.767%	Zhong Chongfeng	2.055%
Wang Yong	3.767%	Lou Dongmei	2.055%
Wang Jianying	3.767%	Wang Min	2.055%
Zhou Zhenxing	3.767%	Wang Yali	2.055%
Zhao Yu	2.397%	Zhao Hanyue	2.055%
Li Maoyuan	2.397%	Zhou Guodong	2.055%

The equity interest (capital contribution) of each partner in Yutailong is as follows:

Name of partner	Proportion of contribution	Name of partner	Proportion of contribution
Lv Yanmei	8.754%	Hu Zhiyan	3.704%
Liu Haoyang	8.754%	Zhang Tao	3.704%
Hou Jun	7.407%	Zhao Qian	2.357%
Xu Junzhi	5.723%	Li Hua	2.020%
Wang Yanjun	5.723%	Chen Yan	2.020%
Hong Xin	5.723%	Zhang Ying	2.020%
Zhang Bin	5.723%	Zhang Hongjie	2.020%
Ma Junwei	5.723%	Pang Xiuwei	2.020%
Mao Jian	3.704%	Zhang Qiuhong	2.020%
Li Jian	3.704%	Wang Hongwei	2.020%
Li Zhen	3.704%	Zhao Dewei	2.020%
Liu Xiandong	3.704%	Li Yan	2.020%
Gong Zaixing	3.704%		

4. Identity and Interests of the Executive Partner (i.e. the General Partner)

The Partnership Enterprise Law of the PRC (the “**Partnership Enterprise Law**”) provides that, “a limited partnership shall be engaged by a general partner in the execution of partnership affairs. The executive partner may request for the remuneration of the execution of the business and the manner to receive the remuneration in the partnership agreement” and “a limited partnership partner shall not execute partnership affairs and shall not represent the limited partnership externally”.

Pursuant to the foregoing provisions, a limited partnership shall be engaged by a general partner as an executive partner, an executive partner shall carry out partnership affairs on behalf of the partnership, and is the de facto controller of the partnership. At the same time, the executive partner can have relevant property interests in accordance to its capital contribution in the partnership. A limited partnership partner who does not carry out partnership affairs shall only enjoy relevant property interests in accordance to its capital contribution in the partnership under the provisions of the Partnership Enterprise Law and the partnership agreement.

CLARIFICATION OF THE RELEVANT DESCRIPTION IN THE ANNOUNCEMENT

Regarding the description in paragraph 2 of “INFORMATION ABOUT THE EMPLOYEES’ SHAREHOLDING PLATFORM” of page 8 of the Announcement, “The Company has confirmed that to the best knowledge and belief of the Directors after making all reasonable inquiries, the Investors, the Employees’ Shareholding Platform and their ultimate beneficial owners are independent third parties other than the Company and its connected persons”, after the Company’s further verification, Xie Jindong, one of the ultimate beneficial owners of Ruitailong, is a director of the Valve Company and a connected person of the Company, therefore the above description is not entirely accurate.

Xie Jindong’s equity interest in Ruitailong is approximately 11.63%, representing approximately 3.92% of the total equity of the Employees’ Shareholding Platform. Therefore, the Employees’ Shareholding Platform is not a connected person at the subsidiary level of the Company and the Capital Injection does not constitute a connected transaction between the Company and its connected persons at the subsidiary level.

The Company has confirmed that to the best knowledge and belief of the Directors after making all reasonable inquiries, except Xie Jindong, the Investors, the Employees’ Shareholding Platform and their ultimate beneficial owners are independent third parties other than the Company and its connected persons.

Save as disclosed in this announcement, the Company confirms that all other contents of the Announcement are correct and remain unchanged.

For reference purposes only, the Chinese names of the PRC entities or individuals have been translated into English in this announcement. In the event of any discrepancies between the Chinese names of these PRC entities or individuals and their respective English translations, the Chinese version shall prevail.

By Order of the Board
Harbin Electric Company Limited
Ai Li-song
Company Secretary

Harbin, the PRC
13 January 2021

As at the date of this announcement, the executive directors of the Company are Mr. Si Ze-fu, Mr. Wu Wei-zhang and Mr. Zhang Ying-jian; and the independent non-executive directors of the Company are Mr. Zhu Hong-jie, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Tian Min.

APPENDIX I – LETTER FROM DA HUA CERTIFIED PUBLIC ACCOUNTANTS (SPECIAL GENERAL PARTNERSHIP)

The following is the text of the letter dated 6 January 2021 from Da Hua Certified Public Accountants (Special General Partnership), Certified Public Accountants, which was prepared for inclusion in this announcement.

INDEPENDENT ASSURANCE REPORT ON THE CALCULATIONS OF THE DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF THE ENTIRE EQUITY INTEREST IN HARBIN POWER GROUP HARBIN POWER STATION VALVE COMPANY LIMITED (HEREINAFTER REFERRED TO AS “VALVE COMPANY OF HE”)

To the Board of Directors of Harbin Electric Company Limited,

We have examined the calculations of the discounted future estimated cash flows based on the entire equity interest in the Valve Company of HE as at 30 September 2019 (the “**Valuation**”) in the valuation report prepared by Beijing Zhongtianhe Assets Appraisal Co., Ltd. dated 17 March 2020. The Valuation is set out in the announcement dated 21 December 2020 issued by Harbin Electric Company Limited (the “**Company**”) in relation to the entering into of the Valve Company Capital Injection Agreement. Pursuant to the Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), valuation based on discounted future cash flows is regarded as a profit forecast.

I. Directors’ Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with their determined bases and assumptions (the “**Assumptions**”). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation, and making estimates that are reasonable in the circumstances.

II. Our Independence and Quality Control

We have complied with the independence requirement of the “Code of Ethics for Professional Accountants” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and other ethical requirements, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 (Quality Control for Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements) issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

III. Reporting Accountants' Responsibility

Our responsibility is to express an opinion on whether the calculations of the discounted future estimated cash flows based on the Valuation have been properly compiled in all material respects in accordance with the Assumptions and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purposes.

We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work was limited primarily to making inquiries to the Company's management, considering the analyses and assumptions on which the discounted future estimated cash flows are based and checking the arithmetic accuracy of the compilation of the discounted future estimated cash flows. Our work does not constitute any valuation of the Valve Company of HE.

Since the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its compilation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material.

Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

IV. Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in all material respect in accordance with the Assumptions.

Da Hua Certified Public Accountants (Special General Partnership)
Beijing, the PRC
6 January 2021

APPENDIX II – LETTER FROM THE BOARD

The following is the text of the letter dated 21 December 2020 from the Board which was prepared for inclusion in this announcement.

To: The Stock Exchange of Hong Kong Limited

Dear Sir/Madam,

Company: Harbin Electric Company Limited (the “**Company**”)

Re: Profit Forecast – Confirmation Letter under the Requirements of Rule 14.62(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”)

Reference is made to the announcement of the Company dated 21 December 2020 in relation to the valuation report of the total equity value of the shareholders in HE Harbin Power Plant Valve Company Limited dated 17 March 2020 (the “**Evaluation Report**”) prepared by Beijing Zhongtianhe Assets Appraisal Co., Ltd. (the “**Valuer**”), which adopted the income approach in the evaluation.

The board of directors (the “**Board**”) of the Company has reviewed the bases and assumptions of the valuation and discussed the same with the Valuer.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the Board confirmed that the profit forecast used in the Evaluation Report has been made after due and careful enquiry.

By Order of the Board
Harbin Electric Company Limited
21 December 2020