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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 INVESTMENT AGREEMENT OF
ZESHENG ENVIRONMENTAL PROTECTION COMPANY
BY BOILER COMPANY**

Reference is made to the announcement of Harbin Electric Company Limited (the “**Company**”) dated 9 April 2021, in relation to entering into the Investment Agreement of Zesheng Environmental Protection Company by Boiler 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 consideration of the Investment is determined based on the market value of all equity interests of shareholders of Zesheng Environmental Protection Company as determined by Heilongjiang Guangrunyuan on the benchmark date. 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 14.60A and Rule 14.62 of the Listing Rules.

PROFIT FORECAST IN RELATION TO THE EVALUATION

Pursuant to the valuation report prepared by Heilongjiang Guangrunyuan, details of the principal assumptions, including commercial assumptions upon which the profit forecast for the total equity value of the Zesheng Environmental Protection 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 by appraisers based on a simulated market according to the transaction conditions of the assets to be valued.
- (ii) Open Market Assumption: it is assumed that for assets trading or to be traded on the market, both trading parties are in equal status and have the opportunities and time to obtain sufficient market information so as to make informed judgments on the assets' functions, usage and trading price.
- (iii) Assumption on Continuing Operation of the Assets: the appraisal approach, parameters and references shall be determined based on whether the assets to be valued will continue to be used in accordance with the current purpose, method, scale, frequency, circumstance of use or will be used with some changes thereto.
- (iv) The Evaluation is based on the fact that the relevant legal documents, various accounting vouchers, account books and other information provided by the appraised unit are true, complete, legal and reliable.
- (v) The Evaluation assumes that the macro environment is relatively stable, that is, there are no material changes in the existing macroeconomics, politics, policies, and industrial policies of the industry in which the assessed unit is located at home and abroad, or the changes can be clearly expected; the monetary and financial policies in China remain basically unchanged, and there are no material changes in current interest rates, exchange rates, etc., or changes can be clearly expected; and there are no material changes in national tax policies, types of taxes and tax rates, or the changes can be clearly expected.
- (vi) The Evaluation assumes that the business environment of the appraised unit is relatively stable, that is, there is no material change in the social, political, legal, economic and other business environments of the appraised unit's main business premises and the areas involved in the business; and the appraised unit can carry out business activities within the established business scope without any policy, legal or man-made obstacles.

2. Specific assumptions of the Evaluation

- (i) The profit forecast in the Evaluation is based on the company's development plan and profit forecast provided by the appraised unit while maintaining the current business scope and continuing operations.
- (ii) It is assumed that the management of the appraised unit is diligent and responsible, has sufficient management skills and good professional ethics.
- (iii) It is assumed that the annual operating income, cost, renewal and transformation expenditures of the appraised unit are incurred and realized at the end of the year.
- (iv) It is assumed that the accounting policies adopted by the appraised unit during the earnings forecast period are consistent with the accounting policies adopted on the Valuation Benchmark Date in all material aspects.
- (v) It is assumed that there are no material adverse effects on the appraised unit caused by other force majeure factors beyond the control of human and unforeseeable factors.

3. Special assumptions of the Evaluation

- (i) It is assumed that the accounting policies to be adopted by the appraised unit after the Valuation Benchmark Date will be consistent in key aspects with the accounting policies adopted when this Assets Valuation Report is prepared.
- (ii) It is assumed that the business scope and practice of the appraised unit will, after the Valuation Benchmark Date, remain consistent with what they are currently based on its existing management practice and management level.
- (iii) It is assumed that the appraised unit will have even cash inflow and cash outflow after the Valuation Benchmark Date, which are realized at the end of each period.
- (iv) It is assumed that the products or services of the appraised unit will maintain current market competitiveness after the Valuation Benchmark Date.

- (v) Assumptions that the qualification can be successfully obtained and renewed after the project is completed

Zesheng Environmental Protection Company has not yet obtained the Business Licenses for Hazardous Wastes. Zesheng Environmental Protection Company expects to complete the construction by June 2021, and it is estimated that it shall pass the acceptance inspection and start operations after obtaining the Business Licenses for Hazardous Wastes in September. The evaluation assumes that Zesheng Environmental Protection Company can obtain the operating license and start operations as scheduled.

The evaluation assumes that the Business Licenses for Hazardous Wastes held by the Zesheng Environmental Protection Company can successfully apply for a new business license after the expiration, and there are no obstacles to the renewal of future qualifications.

- (vi) Assumptions on tax preference

The Notice of the Ministry of Finance and the State Administration of Taxation on printing and distributing the Catalogue of Value-Added Tax Preferences on Products and Services for Comprehensive Utilization of Resources (CS [2015] No. 78) stipulates that 70% of the value-added tax can be levied and refunded immediately for services of waste treatment, sludge treatment and sewage treatment.

Taxpayers in the production and living services industry enjoy the preferential policy of 10% of the added value tax deduction from April 1, 2019 to December 31, 2021 according to the Announcement on Deepening the VAT Reform under the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs (Announcement No. 39, 2019 of the General Administration of Customs of the Ministry of Finance) to deduct the tax payable (hereinafter referred to as the added value tax deduction policy).

Article 88 of the EIT Law and Implementation Regulations of the Law of the PRC stipulates: Qualified environmental protection, energy-saving and water-saving projects, including public sewage treatment, public garbage treatment, comprehensive development and utilization of biogas, technical transformation of energy saving and emission reduction and seawater desalination enjoy the “3+3 tax holiday” income tax preferences (calculated based on the expected production in 2021, exempt from 2021–2023, and halved from 2024–2026).

Pursuant to the Article 1 of the Notice of the Ministry of Finance and the State Administration of Taxation on the Implementation of the Enterprise Income Tax Preferential Catalogue for Special Equipment for Environmental Protection, the Enterprise Income Tax Preferential Catalogue for Energy-saving and Water-saving Equipment, and the Enterprise Income Tax Preferential Catalogue for Special Equipment for Safety in Production” (CS [2008] No. 48), enterprises purchasing and actually using special equipment for environmental protection, energy saving, water saving and safe production included in the Catalogue since 1 January 2008 can deduct 10% of the investment in special equipment for the current year’s corporate income tax payable; if an enterprise’s tax payable in the current year is insufficient for the credit, it can be carried forward to subsequent years, but the carry-forward period shall not exceed 5 tax years.

It is assumed that the above preferential income tax and value-added tax policies currently enjoyed by Zesheng Environmental Protection Company will not change during the forecast period.

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 Zesheng Environmental Protection 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	26 April 2021
Heilongjiang Guanrunyuan Assets Appraisal Co., Ltd.	Certified Assets Valuer	31 December 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.

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

Harbin, the PRC
28 April 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. Sun Zhi-yong; and the independent non-executive directors of the Company are Mr. He Yu, Mr. Hu Jian-min, Mr. Chen Guo-qing and Mr. Tang Zhi-hong.

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

The following is the text of the letter dated 26 April 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 JILIN ZESHENG ENVIRONMENTAL PROTECTION ENGINEERING COMPANY LIMITED (HEREINAFTER REFERRED TO AS “ZESHENG ENVIRONMENTAL PROTECTION COMPANY”)

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 Zesheng Environmental Protection Company as at 30 September 2020 (the “**Valuation**”) in the valuation report prepared by Heilongjiang Guangrunyuan Assets Appraisal Co., Ltd. dated 31 December 2020. The Valuation is set out in the announcement dated 9 April 2021 issued by Harbin Electric Company Limited (the “**Company**”) in relation to the entering into of the Investment Agreement of Zesheng Environmental Protection Company with Harbin Boiler Company Limited. 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 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 Zesheng Environmental Protection Company.

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
26 April 2021

APPENDIX II – LETTER FROM THE BOARD

The following is the text of the letter dated 26 April 2021 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 9 April 2021 in relation to the valuation report of the total equity value of the shareholders in Jilin Zesheng Environmental Protection Engineering Co., Ltd. dated 31 December 2020 (the “**Evaluation Report**”) prepared by Heilongjiang Guangrunyuan 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 above profit forecast used in the Evaluation Report has been made after due and careful enquiry.

By Order of the Board
Harbin Electric Company Limited
26 April 2021