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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)

**DISCLOSEABLE TRANSACTION
ENTERING INTO THE VALVE COMPAN
CAPITAL INJECTION AGREEMENT**

ENTERING INTO THE VALVE COMPAN CAPITAL INJECTION AGREEMENT

The Board hereby announces that the Company entered into the Valve Company Capital Injection Agreement with the Valve Company, the Investors and the Employees' Shareholding Platform on 21 December 2020, pursuant to which the Investors and Employees' Shareholding Platform will invest RMB220,000,000 and RMB24,444,200 respectively in the Valve Company by way of cash contribution to hold equity interests in the Valve Company. The Investors and the Employees' Shareholding Platform will invest a total of RMB244,444,200 (equivalent to approximately HK\$289,289,900).

After the Capital Injection, the Company, the Investors and the Employees' Shareholding Platform will hold 45%, 45% and 10% equity interests in the Valve Company respectively. The Valve Company remains a subsidiary of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As certain applicable percentage ratios (as defined in the Listing Rules) in respect of the Capital Injection are more than 5% but less than 25%, the Capital Injection constitutes a discloseable transaction of the Company, and the Company is required to comply with the notification and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board hereby announces that the Company entered into the Valve Company Capital Injection Agreement with the Valve Company, the Investors and the Employees' Shareholding Platform on 21 December 2020, pursuant to which the Investors and the Employees' Shareholding Platform will invest RMB220,000,000 and RMB24,444,200 respectively in the Valve Company by way of cash contribution to hold equity interests in the Valve Company. The Investors and the Employees' Shareholding Platform will invest a total of RMB244,444,200 (equivalent to approximately HK\$289,289,900).

PRINCIPAL TERMS OF THE VALVE COMPANY CAPITAL INJECTION AGREEMENT

The Valve Company Capital Injection Agreement contains, inter alia, the following principal terms:

1. Date

21 December 2020

2. Parties

- (i) The Company ;
- (ii) The Valve Company;
- (iii) The Investors; and
- (iv) The Employees' Shareholding Platform.

3. Capital

The Investors shall invest RMB220,000,000 and hold 45% equity interests in the Valve Company after the Capital Injection, of which RMB80,000,000 shall be included in the registered capital, and RMB140,000,000 shall be included in the capital reserve; the Employees' Shareholding Platform shall invest RMB24,444,200 and hold 10% equity interests in the Valve Company after the Capital Injection, of which RMB8,888,800 shall be included in the registered capital, and RMB15,555,400 shall be included in the capital reserve.

After the Capital Injection, the registered capital of the Valve Company shall increase from RMB88,888,800 to RMB177,777,600.

After the Capital Injection, the Valve Company remains a subsidiary of the Company.

4. P t t

Each of the Investors has paid a transaction deposit of RMB5 million to the CBEX respectively. Within three working days from the following day upon signing of the Valve Company Capital Injection Agreement, the CBEX will transfer all transaction deposits paid by the Investors to the designated bank account of the Valve Company to offset part of the capital contribution by the Investors; within 10 working days from the following day upon signing of the Valve Company Capital Injection Agreement, the Investors shall pay the capital contribution payable in full in one lump sum by way of cash (except the transaction deposits) to the designated bank account of the Valve Company.

Within 30 working days from the following day upon the signing of the Valve Company Capital Injection Agreement, the Employees' Shareholding Platform shall pay 20% of the total amount of its capital contribution payable to the designated bank account of the Valve Company by way of cash as the first capital contribution; within four years from the date of completion of the industrial and commercial change registration for the Capital Injection as stipulated in the Valve Company Capital Injection Agreement, the remaining capital contribution of the Employees' Shareholding Platform shall be paid in full, and the amount of actual capital contribution for each year shall be 20% of the amount of the capital contribution payable; if the Valve Company intends to convert into a joint stock limited company, the Employees' Shareholding Platform shall complete all actual capital contribution before the conversion of the audit benchmark date determined by the Valve Company.

5. P t t t t

The Parties agree that during the period from the Valuation Benchmark Date to the Completion Date, the profit or loss of the Valve Company shall be jointly shared and enjoyed by the Valve Company's Shareholders after completion of the industrial and commercial change registration of the Capital Injection in accordance to their respective shareholding. If the increase or decrease of the net assets and the change of the relevant interests of the Valve Company are due to the profit or loss incurred from the operating activities of the Valve Company, the Parties shall not adjust the conditions and price of the Capital Injection accordingly.

6. T t t t C t t C t I t

After the Capital Injection, the board of directors of the Valve Company shall consist of 7 directors, among which 3 directors shall be nominated by the Company, 1 director shall be nominated by Employees' Shareholding Platform and 3 directors shall be nominated by the Investors. The directors shall be elected at the general meeting of shareholders.

The chairman of the board of directors of the Valve Company will be selected from the directors nominated by the Company and elected by the board of directors established by the Valve Company after the Capital Injection in accordance with the laws and the provisions of the Valve Company's Articles of Association, and the legal representative of the Valve Company shall be the chairman of the board of directors.

After the Capital Injection, the Valve Company will set up a board of supervisors, which shall consist of 3 supervisors, among which the Company is entitled to nominate 1 supervisor. The chairman of the board of supervisors shall be the supervisor nominated by the Company and elected by the board of supervisors established by the Valve Company after the Capital Injection in accordance with the laws.

The general manager of the Valve Company shall be appointed by the board of directors of the Valve Company in accordance with the laws after the Capital Injection.

7. P t t t

The Valve Company's Shareholders unanimously agree that the principle of future dividend distribution of the Valve Company is: under the condition that the Valve Company is profitable, the accumulated undistributed profit is positive, and the cash flow meets the sustainable operation and long-term development, the dividend shall be distributed by way of cash, and the Valve Company's Shareholders will participate in the profit distribution in accordance with the proportion of their actual contribution to the Valve Company.

8. U t t t t t t t

- (i) The proceeds obtained from the Capital Injection will be used for the major business development and operation related purposes of the Valve Company, and shall not be used for other purposes such as repayment of debts of connected parties;
- (ii) Before the qualified listing of the Valve Company, if the Investors still holds the equity interests of the Valve Company, without the prior written consent of the Investors, the Company shall not lose the status of the controlling shareholder of the Valve Company, and shall not transfer its equity interests of the Valve Company to a third party other than its connected parties in any form by transferring all or part of its equity interests, which will result in the change of the de facto control of the Valve Company;
- (iii) Before the qualified listing of the Valve Company, the Employees' Shareholding Platform shall not transfer all or part of its equity interests of the Valve Company without the prior written consent of the Investors;

- (iv) No matter before or after the qualified listing of the Valve Company, the Investors shall not form the relationship of acting in concert and shall not seek the de facto control of the Valve Company in any form.

9. Other Matters

- (i) **Preemptive right.** After completion of the Capital Injection, the Valve Company's Shareholders shall be entitled to preemptive right over any third party other than the Valve Company's Shareholders to subscribe for the new registered capital of the Valve Company on the same terms and consideration in accordance with their shareholding in the Valve Company.
- (ii) **Right of first refusal.** After completion of the Capital Injection, each of the Valve Company's Shareholders shall be entitled to the right of first refusal to purchase the equity interests transferred by other the Valve Company's Shareholders in accordance with their shareholding in the Valve Company. However, the Investors can only exercise the right of first refusal if the exercise of such right does not affect the de facto control of the Company over the Valve Company without prior written consent of the Valve Company's existing Shareholders.
- (iii) **Anti-dilution clause.** If the Valve Company carries out equity interests operations such as capital increase, issuance of shares, issuance of convertible corporate bonds before qualified listing (excluding the situation that all the Valve Company's Shareholders increase the share capital at the same proportion, such as the conversion of profits of the Valve Company into share capital and the conversion of capital reserves into share capital). If the transaction price per share after the assessment and filing (i.e. the consideration paid for obtaining each RMB1 of registered capital per each share of the Valve Company) is lower than the transaction price per share of the Investors under the Capital Injection, according to the requirements of relevant laws and regulations, the transaction shall obtain the unanimous written consent of the then the Valve Company's Shareholders in advance and the approval of competent authorities.

10. Effect

The Valve Company Capital Injection Agreement shall take effect from the date when the legal representatives/executive partners or authorized representatives of the Company, the Investors and Employees' Shareholding Platform sign and affix their official seals.

DETERMINATION FOR THE CONSIDERATION OF TRANSACTION

The Capital Injection is determined based on the price of public listing in CBEX. Prior to the public listing of CBEX, the Valve Company appointed Beijing Zhongtianhe Assets Appraisal Co., Ltd.* (北京中天和資產評估有限公司) (“Beijing Zhongtianhe”) to evaluate the total equity value of the Valve Company’s Shareholders (the “Employees’ Shareholding Value”), and issued a valuation report on 17 March 2020.

The income approach was adopted as the final evaluation conclusion in the Evaluation. The appraised value of the Valve Company on the Valuation Benchmark Date was RMB218,540,200 (the “Appraised Value”), with an appreciation of RMB43,066,500 as compared with the book value of RMB175,473,700 at an appreciation rate of 24.54%. After the Evaluation, on 8 May 2020, the Company entered into an agreement with the Valve Company and the Employees’ Shareholding Platform, pursuant to which the Employees’ Shareholding Platform invested RMB24,444,200 (the “Employees’ Shareholding Value”) and held 10% equity interests of the Valve Company. All Parties agreed to take the sum of the Appraised Value and the Employees’ Shareholding Value as the consideration basis for the Capital Injection.

Since the income approach is adopted by Beijing Zhongtianhe in respect of valuation of all equity interests of the Valve Company’s Shareholders, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. The Company will issue a further announcement within 15 business days after the publication of this announcement in compliance with Rule 14.60A and Rule 14.62 of the Listing Rules.

REASONS FOR AND BENEFITS OF THE CAPITAL INJECTION

The Capital Injection is conducive to the Valve Company to obtain external financial support, with the help of the capital market forces, to concentrate resources to break through the technical barriers of high-end products; it is conducive to integrate upstream and downstream enterprise resources by utilising capital for the Valve Company, and to cultivate and expand the valve industry; it is conducive for the Valve Company to change the operating management mechanism and activate endogenous power; it is conducive for the Valve Company to establish a compensation mechanism model that combines contractual revenue and capital gains, so that the long-term interests of the operators and the long-term development of the Valve Company are closely integrated.

The Board is of view that the terms of the the Valve Company Capital Injection Agreement are fair and reasonable, the transaction is in the ordinary and usual course of business of the Company and on normal commercial terms or better, and is in the interests of the Company and the Shareholders as a whole.

No Directors has material interests in the Capital Injection.

I t t C

The Company, together with its subsidiaries is one of the largest manufacturers of power plant equipment in the PRC, the principal activities of which include the manufacturing of thermal power main equipment, hydro power main equipment, nuclear power main equipment, gas power equipment and engineering procurement construction of power station projects.

I t t C

The Valve Company is a subsidiary of the Company and a limited liability company incorporated in the PRC. Its principal business is the development, production, sale, installation, maintenance and commissioning of valves; technological development, technical consultation, technology transfer and technical services of valves and supporting equipment; sales: electric devices, soot blowing equipment, water level measurement devices, temperature and pressure reduction devices, power station auxiliary equipment; power station system design, foreign product subcontracting, domestic trade; engagement in the import and export of commodities and technology.

Before the Capital Injection, the registered capital of the Valve Company is RMB88,888,800. The Company holds 90% equity interests of the Valve Company, and the Employees' Shareholding Platform holds 10% equity interests of the Valve Company. After the Capital Injection, the registered capital of the Valve Company is RMB177,777,600. The Company, the Investors and the Employees' Shareholding Platform hold 45%, 45% and 10% equity interests of the Valve Company respectively. Valve Company remains a subsidiary of the Company.

The total asset of the Valve Company as at 31 December 2019 and 30 June 2020 amounted to approximately RMB871,416,153.17 (audited) and approximately RMB995,735,339.32 (unaudited) respectively. The valuation of the Valve Company as at 30 September 2019 was approximately RMB218,540,200.

The following table sets out the audited net profit (before and after taxation) of the Valve Company for the two years ended 31 December 2019:

	For the year ended 31 December 2018 (RMB)	For the year ended 31 December 2019 (RMB)
Net profit before tax	11,516,727.53	14,437,063.45
Net profit after tax	10,296,259.06	24,848,768.50

INFORMATION ABOUT THE INVESTORS

Heilongjiang Muling Power Station Valve Co., Ltd.* (黑龍江穆棱市電站閘門有限責任公司) is a limited liability company incorporated in the PRC with a registered capital of RMB20,000,000. Its principal business includes power station valves, boiler auxiliary machines, mechanical and electrical products, mechanical processing and range hoods machinery parts.

Shandong Hongxin New Energy Technology Service Center (Limited Partnership)* (山東鴻信新能源技術服務中心(有限合夥)) is a limited partnership enterprise incorporated in the PRC. It has 10 partners, all of whom are natural persons.

Guoxin Shuangbai No. 1 (Hangzhou) Equity Investment Partnership (Limited Partnership)* (國新雙百壹號(杭州)股權投資合夥企業(有限合夥)) is a limited partnership enterprise incorporated in the PRC, and the executive partner is State Reform Shuangbai Development Fund Management Co., Ltd.* (國改雙百發展基金管理有限公司).

Heilongjiang Zhenxing Fund Investment Enterprise (Limited Partnership)* (黑龍江振興基金投資企業(有限合夥)) is a limited partnership enterprise incorporated in the PRC, and the executive partner is Longjiang Fund Management Co., Ltd.* (龍江基金管理有限公司).

Heilongjiang Ronghui Industrial Venture Capital Enterprise (Limited Partnership)* (黑龍江融匯工創創業投資企業(有限合夥)) is a limited partnership enterprise incorporated in the PRC, and the executive partner is Heilongjiang Keli High Technology Industry Investment Co., Ltd.* (黑龍江科力高科技產業投資有限公司).

INFORMATION ABOUT THE EMPLOYEES' SHAREHOLDING PLATFORM

Harbin Ruitailong Valve Sales Center (Limited Partnership)* (哈爾濱市瑞泰龍閘門銷售中心(有限合夥)), Harbin Runtailong Valve Technology R&D Center (Limited Partnership)* (哈爾濱市潤泰龍閘門技術研發中心(有限合夥)) and Harbin Yutailong Valve Intelligent Manufacturing Center (Limited Partnership)* (哈爾濱市譽泰龍閘門智能製造中心(有限合夥)) are all limited partnership enterprises incorporated in the PRC, which are established to realize the shareholding of employees of the Valve Company, and each limited partnership has no more than 50 partners.

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.

IMPLICATIONS UNDER THE LISTING RULES

As certain applicable percentage ratios (as defined in the Listing Rules) in respect of the Capital Injection are more than 5% but less than 25%, the Capital Injection constitutes a discloseable transaction of the Company, and the Company is required to comply with the notification and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the board of Directors;
“Capital Injection”	Investors invested RMB220,000,000 in the Valve Company, holding 45% equity interests of the Valve Company after the Capital Injection; Employees’ Shareholding Platform increased the capital of RMB244,444,200 to the Valve Company, holding 10% equity interests of the Valve Company after the Capital Injection;
“CBEX”	China Beijing Equity Exchange;
“Company”	Harbin Electric Company Limited* (哈爾濱電氣股份有限公司), a company incorporated in the PRC with limited liability, the H shares of which are listed on the Main Board of the Stock Exchange;
“Completion Date”	the date when the CBEX issued the capital injection transaction certificate for the Capital Injection;
“Director(s)”	director(s) of the Company;
“Employees’ Shareholding Platform”	Harbin Ruitailong Valve Sales Center (Limited Partnership)* (哈爾濱市瑞泰龍閥門銷售中心(有限合夥)), Harbin Runtailong Valve Technology R&D Center (Limited Partnership)* (哈爾濱市瑞泰龍閥門技術研發中心(有限合夥)) and Harbin Yutailong Valve Intelligent Manufacturing Center (Limited Partnership)* (哈爾濱市譽泰龍閥門智能製造中心(有限合夥));
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong.

“Investors”	Heilongjiang Muling Power Station Valve Co., Ltd.* (黑龍江穆陵市電站閥門有限責任公司), Shandong Hongxin New Energy Technology Service Center (Limited Partnership)* (山東鴻信新能源技術服務中心(有限合夥)), Guoxin Shuangbai No. 1 (Hangzhou) Equity Investment Partnership (Limited Partnership)* (國新雙百壹號(杭州)股權投資合夥企業(有限合夥)), Heilongjiang Zhenxing Fund Investment Enterprise (Limited Partnership)* (黑龍江融匯工創創業投資企業(有限合夥)), and Heilongjiang Ronghui Industrial Venture Capital Enterprise (Limited Partnership)* (黑龍江融匯工創創業投資企業(有限合夥));
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Parties”	the Company, the Valve Company, Employees’ Shareholding Platform and the Investors;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	holder(s) of shares of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Valuation Benchmark Date”	30 September 2019;
“Valve Company”	Harbin Power Group Harbin Power Station Valve Co., Ltd.* (哈電集團哈爾濱電站閥門有限公司), a company incorporated in the PRC with limited liability, a subsidiary of the Company;
“Valve Company Capital Injection Agreement”	Capital Increase Agreement on Harbin Power Group Harbin Power Station Valve Co., Ltd. entered into by the Company, the Valve Company, Employees’ Shareholding Platform and the Investors on 21 December 2020;
“Valve Company’s Shareholders”	the Company, Employees’ Shareholding Platform and the Investors;

In this announcement, translation of RMB into HK\$ is based on the exchange rate of HK\$1.00 = RMB0.84498. This exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts have been, could have been or may be converted at such rate or any other exchange rate.

* *For identification purposes only*

By Order of the Board
H E t C L t
A L -
Company Secretary

Harbin, PRC
21 December 2020

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.