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BOOK VALUE AND APPRAISED VALUE OF ENGINEERING RESEARCH CENTRE

The book value and appraised value of Engineering Research Centre as at the Valuation Benchmark Date and the difference between them (the “Difference”) are set out in the table below:

Valuation Benchmark Date: 30 September 2023

Amount in RMB0’000

Item	Book value A	Appraised value B	Amount of appreciation C=B-A	Appreciation rate % D=C/A × 100
I. Current assets	25,793.43	25,793.42	-0.01	-0.00
II. Non-current assets	11,019.81	13,192.08	2,172.27	19.71
Including: Long-term equity investments	3,641.81	3,641.81	-	-
Investment properties		-	-	-
Fixed assets	2,301.47	2,947.79	646.32	28.08
Construction in progress	486.66	596.08	109.42	22.48
Oil and gas assets		-	-	-
Intangible assets	359.94	1,614.48	1,254.54	348.54
Including: Land use right		-	-	-
Other non-current assets	4,229.93	4,391.92	161.99	3.83
Total assets	36,813.24	38,985.50	2,172.26	5.90
III. Current liabilities	29,964.06	29,964.06	-	-
IV. Non-current liabilities	1,043.16	1,043.16	-	-
Total liabilities	31,007.22	31,007.22	-	-
Net assets	5,806.02	7,978.28	2,172.26	37.41

KEY QUANTITATIVE INPUTS FOR THE VALUATION AND REASONS FOR THE DIFFERENCE

1. Fixed assets

- (1) The fixed assets included in the scope of the Valuation mainly comprise 5 buildings, with a total gross floor area of 10,653.65 square metres. The cost approach was adopted for the buildings in the Valuation, with the replacement cost unit price for the appraised value at RMB2,000-5,300/m², original appraised value of RMB25,093,300, net appraised value of RMB11,481,100, and appreciation of RMB8,022,800.

The appreciation of the original appraised value of the buildings was mainly due to the fact that the buildings were constructed at an earlier time and the prices of steel, cement and other raw materials as well as the labour cost required for the buildings as at the Valuation Benchmark Date had risen, resulting in the increase in the replacement cost; the appreciation of the net appraised value was mainly due to the fact that the depreciation life of the enterprise was lower than the economic life adopted for the Valuation, resulting in the appreciation of the net value being greater than the original value.

- (2) A total of 80 machinery and equipment were included in the scope of the Valuation, most of them were appraised under the cost approach and some of them were appraised under the market approach. The original appraised value of the machinery and equipment was RMB19,303,200, the net appraised value was RMB17,996,700, and the depreciation was RMB1,559,600.

The depreciation in the valuation of the machinery and equipment was mainly due to the decline in the market price of certain equipment and the existence of scrapping and other circumstances of certain machinery and equipment, resulting in the depreciation in the original and net appraised value.

In summary, the appreciation in the valuation of the fixed assets was RMB6,463,200.

2. Construction in progress

A total of 7 construction in progress were included in the scope of the Valuation, representing the expenses incurred for the research projects of Engineering Research Centre, which mainly comprised the research on the key technology of operation and maintenance of digital substitutes for intelligent power generation equipment and the development of scientific research projects and management system for scientific research results. The appreciation of the construction in progress amounted to RMB1,094,200.

The appreciation in the valuation of the construction in progress was mainly due to the fact that some of the research and development projects in construction in progress had been transferred or were to be transferred and the transfer price was higher than the book value.

3. Intangible assets

The intangible assets included in the scope of the Valuation comprise 1 design patent, 139 utility model patents, 288 invention patents, 40 software copyrights and 2 pieces of software, of which the design patents, utility model patents, invention patents and software copyrights were developed by Engineering Research Centre itself and acquired by Harbin Steam Turbine Company Limited on assignment, and all of them have no book values.

During the Valuation, cost approach and market approach were adopted to value the design patents, utility model patents, invention patents, software copyrights and other intangible assets that were included in the scope of the Valuation, with the appraised value being RMB12,250,400.

The appreciation in the valuation of the intangible assets such as patents, utility model patents and software copyrights was due to the fact that the research and development expenditure on such intangible assets has been included in the cost for the current period, resulting in an appreciation in valuation.

4. Other non-current assets

(1) Development expenses

The appraised value of the development expenses was RMB33,141,800, with an appreciation in valuation of RMB842,500.

The appreciation in the valuation of the development expenses was due to the fact that some of the research and development projects under the development expenses projects had been transferred or were to be transferred, and the transfer price was higher than the book value.

(2) Investments in other equity instruments

Investments in other equity instruments are external long-term equity investments. The valuers obtained the recent statement data of the companies of the investments in other equity instruments and calculated the appraised value of the investments in other equity instruments based on the statement data of the companies of the investments in other equity instruments and the investment ratio after understanding the ratio of the contribution to the shareholding, the amount of the contribution, and the business conditions, etc. The appreciation in the valuation of the investments in other equity instruments was RMB777,400.

The valuers calculated the appraised value of the other equity instruments by measuring the amount of investment income of the companies of the investments in other equity instruments based on the statement data of the companies of the investments in other equity instruments obtained, with slight appreciation being recorded in the valuation.

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

Harbin, the PRC
16 May 2024

As at the date of this announcement, the executive Directors of the Company are Mr. Cao Zhi-an and Mr. Huang Wei; and the independent non-executive Directors of the Company are Mr. He Yu, Mr. Hu Jian-min, Mr. Tang Zhi-hong and Mr. Pan Qi-long.